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INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

Report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its ninth session

SUMMARY

During its ninth session (5-15 March 1991), the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting fulfilled its primary objective and served as a global forum for the discussion of accounting and reporting issues. The Group considered current developments in accounting from a global perspective. In particular, it discussed important efforts under way to harmonize accounting standards and to deal with such problems as accounting for new financial instruments and intangible assets.

The Group also reviewed accounting developments in Central and Eastern Europe, where the pace of change has been particularly rapid. Those countries must not only revise their accounting regulations but must also provide for the creation of the accounting and auditing profession, as well as for accounting education and training. It was hoped that those countries would benefit from international accounting standards and international guidelines in education and auditing.

The Group also took up the technical subjects of accounting for joint ventures, accounting for environmental protection measures, accounting issues arising during privatization and the organization of the accounting profession, and

* E/C.10/1991/1.

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the role and education of auditors. The most important item considered was the renewal of the Group's mandate. The Group recommended a draft decision for adoption by the Commission whereby the mandate would be renewed and extended for five years. Various suggestions were made concerning the format for future sessions. The Group recommended alternating sessions on general subjects with sessions on specific subjects or on the problems of specific regions.

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I. MATTERS CALLING FOR ACTION BY THE COMMISSION ON TRANSNATIONAL CORPORATIONS

1. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting recommends to the Commission on Transnational Corporations the adoption of the following draft decisions:

DRAFT DECISION I

Report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its ninth session and provisional agenda and documentation for the tenth session of the Group

The Commission on Transnational Corporations decides:

(a) To approve the report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its ninth session;

(b) To approve the provisional agenda and documentation for the tenth session of the Group as set out below.

PROVISIONAL AGENDA AND DOCUMENTATION FOR THE TENTH SESSION OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

1. Election of officers.

2. Adoption of the agenda and other organizational matters.

3. Review of important current developments at the global and national levels in the field of accounting and reporting by transnational corporations, on the basis of documentation received by the United Nations Centre on Transnational Corporations from:

   (a) Individual member States;

   (b) Intergovernmental organizations;

   (c) Non-governmental organizations;

   Documentation

   Reports of the Secretary-General, including four separate reviews of important current developments in the field of accounting and reporting by transnational corporations, two at the global level, including one on the environment, and two at the national level, one on the development and use of accounting standards and the other on the environment

4. Accounting issues arising during privatization, including individual country case studies.

Documentation

Reports of the Secretary-General

5. Preparation of the 1993 session on education and training in developing countries and countries in transition.

Documentation

Reports of the Secretary-General

6. Identification of issues of accounting and reporting for discussion on a priority basis during future sessions.

Documentation

Report of the Secretary-General

7. Accounting and reporting issues arising out of the future code of conduct on transnational corporations.

Documentation

Reports of the Secretary-General

8. Provisional agenda for the eleventh session of the Group.

Documentation

Note by the Secretary-General on the draft provisional agenda for the eleventh session of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting

9. Adoption of the report of the Group on its tenth session.

DRAFT DECISION II

Renewal of the mandate and review of the objectives of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting

The Commission on Transnational Corporations, considering that it would be more effective to alternate sessions of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on general subjects with sessions on specific subjects or on the problems of specific regions, recommends to the Economic and Social Council that it adopt the following draft resolution:

Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting

The Economic and Social Council,

Recalling its resolutions 1979/44 of 11 May 1979 and 1982/67 of 27 October 1982 and resolution 1988/1 adopted by the Commission on Transnational Corporations at its fourteenth session, 1/

Having considered the report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its ninth session, 2/

Acting upon the recommendation of the Group at its ninth session concerning its future work,

Decides to renew the existing mandate of the Group, contained in Economic and Social Council resolution 1982/67 of 27 October 1982, and to extend its duration from three to five years so that paragraph 4 (h) of that resolution would read:

"That the Commission on Transnational Corporations, at its annual session, shall keep under review the work of the Group; in particular, it shall review the mandate, terms of reference and achievements of the Group after five years, with a view to deciding on the advisability of its continuation".

II. PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

A. Review of important current developments at the global and national levels in the field of accounting and reporting by transnational corporations, on the basis of documentation received by the United Nations Centre on Transnational Corporations from individual member States, intergovernmental organizations and non-governmental organizations

2. At its 1st and 2nd meetings, on 5 March 1991, the Group discussed the report of the Secretary-General on important current developments at the global level in the field of accounting and reporting by transnational corporations (E/C.10/AC.3/1991/2). It found that the report was the best global review the Group had considered and was a thorough attempt to document global changes in the field of accounting and reporting. The report outlined a number of activities that

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1/ Official Records of the Economic and Social Council, 1988, Supplement No. 7 (E/1988/17), chap. I, sect. C.

2/ E/C.10/1991/12.

could contribute to greater harmonization of accounting standards, such as the comparability project of the International Accounting Standards Committee (IASC), the formation of the International Capital Markets Groups to study the real barriers to harmonization, the creation of the European Accounting Forum to advise the European Commission on technical solutions for accounting problems not dealt with in the directives of the Council of Ministers of the European Communities, the discussion of accounting services in the Uruguay Round of multilateral trade negotiations and the changes in commercial legislation in Central and Eastern Europe.

3. The observer for IASC described the recent work of his organization, in particular the comparability project. He stated that the International Organization of Securities and Exchange Commiss ns (IOSCO) was giving considerable support to the project. Once it was complete, it was the intention of IOSCO to require enterprises seeking listings on the various exchanges to use international accounting standards. One expert said that IASC should be congratulated on the effort it had invested in the comparability and improvements project. He also emphasized how important it was for the members of IOSCO to adopt, in due course, the resultant international standards as the basis of harmonization. Observers for other international organizations, such as the International Federation of Accountants and the International Assets Valuation Standards Committee, explained the work and recent activities of their organizations. One expert commented that, while efforts were taking place to harmonize accounting standards, efforts should also be undertaken to harmonize standard-setting activities among the various international organizations.

4. Much discussion centred around the accounting rules and practices of banks and insurance companies and the need for market valuation of securities. The observer for the European Community (EC) explained that the 1986 Council directive on the annual accounts and consolidated accounts of banks and financial institutions had introduced the principle of market valuation of securities for those bank securities that belonged to its dealing portfolio. It was expected that a similar EC directive concerning insurance companies would be adopted soon, which would extend the principle of market valuation to all investments held by an insurance company. If the investments were shown in the balance sheet at cost, the higher market value would have to be indicated in the notes.

5. The EC observer was also asked to comment on the EC rules regarding bad loan provisions in the case of banks. It was indicated that the situation in the EC was different from that in the United States because of a different regulatory environment. A distinction also had to be made between the general rules on financial reporting and the supervisory rules for which a number of specific measures had been adopted in the EC. As far as financial reporting was concerned, the EC accounting directive for banks did not contain any specific rules on bad loan provisions: the general rules on value adjustments, therefore, had to be applied. In order to protect confidence in the banking industry, banks might be permitted to understate the value of certain assets within certain limits. In that case, banks had to create an open fund for general banking risks that would allow them to release some of the hidden reserves.

6. A number of experts from developing countries spoke of events that might promote greater harmonization within their regions, such as the formation of regional accounting associations and regional trade blocs. They noted the absence of such information in the report and commented that a report of that kind should also examine the needs of developing countries and what was being done by developed countries to meet those needs. Developing countries' needs were not always the same as those of the developed countries. Their accounting systems and standards needed to satisfy their own requirements.

7. The observer for the Fédération internationale des experts-comptables francophones (FIDEF) stated that the objective of his organization was to eliminate gaps in accounting standards between the developing and developed countries. He felt that the gap was bound to exist as long as developing countries did not participate in international standard-setting. Therefore, his organization tried to give its members access to documentation and to promote the formation of professional institutions which could develop standards. Consequently, it should not be taken that nothing was happening about harmonization in that region. The expert from Morocco announced the formation of the Maghreb Accounting Committee by Algeria, the Libyan Arab Jamarihiya, Mauritania, Morocco and Tunisia. Its purpose was to harmonize accounting rules among them and to promote the standardization of accounting information. The expert from Mexico identified a number of accounting problems that were impeding comparability in his country and mentioned that the proposed trade agreement between Canada, Mexico and the United States would require greater harmonization in accounting. In his view it would be preferable to use international accounting standards rather than the national accounting rules of one of the partners.

8. At its 2nd meeting, the Group considered the report on national developments in the field of accounting (E/C.10/AC.3/1991/3 and Add.1). Many experts intervened in order to update information on their countries. In particular, experts from countries in transition described accounting reforms that were currently under way. The expert from Hungary said that his country had chosen to incorporate the fourth, seventh, and eighth EC directives into its forthcoming accounting law. It had chosen the EC model over other models because most of its foreign direct investment originated in the EC countries. The EC model also had a firm legal basis and was closer to the Hungarian tradition than, for example, the United States model. However, no model could be lifted and directly applied to Hungary.

9. While the new accounting act had been prepared by the Hungarian Ministry of Finance, there was considerable merit in having a consulting committee to assist in formulating the accounting standards in order to ensure that the views of business people, accountants and academics would be taken into consideration. Lastly, some practices would be retained, such as the use of the chart of accounts. Most bookkeepers needed the chart as a guide because they were not able to decide which accounts they should use. However, the new chart would be simplified and redrafted to conform to the layout of the new balance sheet and income statement headings.

10. The expert from the Union of Soviet Socialist Republics provided some interesting statistics that were indicative of how fast his country was moving towards a market economy. At the present time there were 260,000 cooperatives; 46,000 peasant organizations; 3,000 joint ventures, 42 per cent of which were

operating; and 1,400 commercial banks. Plans for a stock market were under way. The situation was more complicated than in other Central and Eastern European countries because of the sheer size of the Union of Soviet Socialist Republics. Fundamental to the reforms was the law on business activities. Accounting reforms would be based on international accounting standards. The work was proceeding with the assistance of the international task force organized by the Ministry of Finance and the United Nations. The expert from the Soviet Union stated that during 1991 the main documents would be prepared, such as the revised chart of accounts, and it was hoped that a new law would be introduced in 1992.

11. The Brazilian expert announced the introduction of a strategic plan for the improvement of the Brazilian stock market. A total of 50 measures would be undertaken, 10 of them dealing with accounting. For example, historic cost accounting would be eliminated while inflationary conditions persisted, the statement on the sources and uses of funds would be replaced by the cash flow statement and minimum reporting rules would be required for pension funds.

12. The expert from China informed the Group that on 17 December 1990 a stock exchange had been set up at Shanghai. While most of the trading was in bonds, it would later involve stocks as well. The market was linked to other cities via a computerized trading network centred in Beijing. Draft legislation on corporations was currently under preparation.

13. In discussing other moves that would increase harmonization, the expert from Sweden explained that his country was overhauling its company law to conform to all EC directives, including the accounting directives. The EC observer added that negotiations between the Community and the European Free Trade Associations (EFTA) were being concluded and that EFTA countries would be accepting EC directives, including the accounting directives.

14. The expert from the Netherlands described accounting developments in his country, which included conforming to the EC directives, developing a pronouncement on intangibles and improving legislation on the supervision of the stock exchange.

15. The expert from Spain informed the Group that a new general accounting plan had been adopted in his country, as well as regulations on auditing which conformed to the eighth EC directive.

B. Discussion of accounting and reporting issues identified during the eighth session

1. Accounting for and by joint ventures

16. At its 3rd meeting, on 6 March 1991, the Group took up the question of accounting for and by joint ventures, as contained in the report of the Secretary-General (E/C.10/AC.3/1991/4). Since IASC has recently developed a standard on accounting for joint ventures, its Secretary-General was invited to give his observations on the similarities and dissimilarities in the conclusions reached in the two exercises. He explained that it had taken IASC seven years to reach its current formulation of IAS 31. He agreed that it was difficult to

describe and define a joint venture to everyone's satisfaction. Distinguishing joint ventures between jointly controlled operations, jointly controlled assets and jointly controlled entities had been a useful step. In his opinion, the conclusions in the report of the Secretary-General were similar to those of IASC, though possibly the report was less supportive of the proportionate consolidation method. Since a number of methods were permitted in both IAS 31 and in the conclusions of the report, one expert asked why reconciliation was not required between national practices and the IAS "benchmark" treatment, instead of allowing for alternatives. Reconciliation had been considered by the IASC Board but was not required in the end. The Board had chosen the proportionate consolidation method because it better reflected the substance of the joint venture, since with the growth in joint ventures, major companies were transferring some of their activities to them. If they were permitted to use the equity method, then that activity could be offset, whereas it had to be recorded under the proportionate consolidation method.

17. A number of experts were of the opinion that it would not be useful to make the definition of a joint venture too restrictive or to argue from theoretical principles about which was the most appropriate accounting method. Given the great diversity in joint ventures, there would always be a case that would defy principles, no matter what the system of classification. In that regard, it was stated that the legal form was only one element that might influence the choice of accounting method. Therefore, care should be taken not to be too rigid in requiring a specific accounting method dependent only on whether the jointly controlled entity was incorporated or unincorporated.

18. Another expert expressed his appreciation for how well the paper had captured the complexity of the subject and considered that the doubts raised during the eighth session had been resolved. Since accounting was largely a reactive discipline, he was of the view that the accounting methods proposed accorded well with reality. The definition of joint control was crucial and the real test of such joint control was having veto power. In sum, he considered that the conclusions were valid and merited acceptance. The observer for Canada expressed doubts about whether the example of dominant control gave a correct description of the situation. While the partners considered that they had a joint venture, that was not the type described in the report so that none of the recommended accounting methods would be appropriate. In the case of "dominant control" by a partner, full consolidation was appropriate.

19. Some experts discussed the merits of having a "benchmark" treatment in order to discourage the use of a number of options. In the case of a change in joint venture partners, the new investor would not receive useful information without knowing which accounting method had been applied. Therefore, the consistency of a benchmark approach was preferable. Another expert said that options were not undesirable and that uniformity was not always helpful.

20. One expert considered that the conclusions in the report should require more in terms of disclosure. It was particularly important to disclose the accounting method and she suggested incorporating paragraphs 50 to 53 from IAS 31. In addition, from her point of view, it was necessary to disclose either the number or

the share of employees in the joint venture and other non-financial information accordingly.

21. The expert from China stated that for the 30,000 joint ventures in his country, the primary issue was not the choice of the accounting method but the problem of foreign currency translation. Another expert said that was a problem for quite a number of countries and that it should be considered as a future project.

22. The expert from Hungary mentioned that there were more than 10,000 joint ventures in his country and that difficulties arose when partners came from different cultures. Another expert from the same region stated that the report provided a basis for a good general discussion, both for the Group and for other readers. Since the actual situation at the national level was very complex, it was better not to go too deeply into the typology of joint ventures. He emphasized that accounting reform was proceeding rapidly in that region and that the new regulations would be more comparable to Western ones.

23. The Group decided to endorse the report of the Secretary-General (E/C.10/AC.3/1991/4) after redrafting a number of paragraphs. The Group's redrafted conclusions are as follows:

"A. Definition

"1. A joint venture is a contractual arrangement whereby two or more parties combine their resources to participate in an undertaking and jointly control the undertaking for accomplishing agreed-upon goals. A joint venture may take the form of a partnership, a trust, undivided interests in an undertaking, or a corporation (limited liability company). Also, joint ventures are often created in the form of a contractual arrangement for carrying out specific activities without forming a separate organizational structure.

"2. Regardless of the legal form of the undertaking, the characteristics of a joint venture which distinguish it from other ways of carrying out economic activities are:

"(a) The participating venturers (parties) enter into a contractual arrangement, typically a written agreement;

"(b) The joint venture participants, by that contractual arrangement (agreement), are given joint control of the undertaking which is the object of the joint arrangement.

"3. A joint venture arrangement implies that 'joint control' of the venture exists even if the participating venturers have unequal ownership interests in the venture. The participating parties generally decide major policies concerning the undertaking by mutual agreement. In most cases, each of the venturers possesses a 'veto' power regarding the major policy decisions of the joint venture.

"4. Considering the nature of joint venture arrangements, joint ventures can be classified as belonging to one of the following three types:

"(a) Jointly controlled entities. Separate legal entities, they may be corporations, partnerships or any other forms of organization. The entity may be either incorporated or unincorporated;

"(b) Jointly controlled operations. In these situations, no separate entity is formed. Instead, parts of the venturers' existing enterprises work on a common project and co-ordinate their activities;

"(c) Jointly controlled assets. Although no separate entity is created, the resources contributed by the participating venturers are pooled together for the purpose of a joint venture project which is managed either by one managing venturer or by a joint management team, typically known as the operator. Each venturer possesses an undivided interest in these assets.

"B. Accounting by joint ventures in the case of jointly controlled entities

"5. The legal form of a jointly controlled entity determines the procedure of financial accounting and reporting by the joint venture. The jointly controlled entity must follow the conventional or legal requirements on corporate accounting in the country of operation. In the case of financial reporting by international joint ventures, international standards are to be taken as 'benchmarks' that will be adjusted to the local accounting environment.

"C. Accounting by joint ventures in the case of jointly controlled operations

"6. The joint venture activities of a jointly controlled operation are delegated to the participating venturers, and each venturer carries out its part of the activities using its own resources. In this type of joint venture, no separate joint accounts of the jointly controlled operations are normally prepared. Each venturer maintains accounting records for its part of a jointly controlled operation.

"D. Accounting by joint ventures in the case of jointly controlled assets

"7. These joint ventures normally maintain separate accounting records of the expenses incurred for the jointly controlled assets, and the resources received from and the outputs delivered to the joint venture participants. These accounting records are maintained by the operator of the jointly controlled assets.

"E. Accounting for jointly controlled entities

"8. The basic issue in accounting for investments in jointly controlled entities relates to the choice of method of reporting the investments and operations in the financial statements of participating venturers. The choice of method may depend on whether the entity is incorporated or unincorporated.

"9. An unincorporated entity is not usually a juridical person and therefore venturers directly and proportionately control the assets, liabilities, revenues and expenses of the jointly controlled entity. Because of that fact, it is appropriate to combine a venturer's proportionate share of the venture's assets, liabilities, revenues and expenses, with its other fully controlled assets, liabilities, revenues and expenses; this method is generally known as proportionate consolidation.

"10. On the other hand, an incorporated entity itself controls the assets, liabilities, revenues and expenses since it is a juridical person. The venturers, through their joint control over the entity, exercise joint control over the assets, liabilities, revenues and expenses of the entity. However, since the venture's assets etc. are primarily controlled by the incorporated entity itself, it would not be prudent to combine a venturer's proportionate share of these items with those items which the venturer directly and fully controls. The use of the 'expanded equity method' for reporting investments in jointly controlled incorporated entities would take into consideration both the substance and form of the joint venture arrangement. Under this method, a venturer presents its proportionate share of the assets, liabilities, revenues and expenses of the venture in its consolidated financial statements, but as separate line items and without combining these amounts directly with its fully controlled assets, liabilities, revenues and expenses.

"11. Under the expanded equity method, the balance sheet items are shown in two separate lines - one line showing the amount representing the item directly controlled by the venturer (venturer's own and consolidated amount), and the other line showing the amount representing the venturer's proportionate share of the item in the balance sheets of the jointly controlled incorporated entities. Similarly, for revenues and expenses, the separate line items are presented in the consolidated income statement.

"12. If the national law of a country recognizes a form of an unincorporated entity as a legal person and that unincorporated entity possesses most of the characteristics of an incorporated entity, joint venture participants in such an unincorporated entity may treat it as an incorporated entity for accounting and reporting purposes.

"13. Some national accounting standard-setters may prefer the equity method for reporting investments in jointly controlled incorporated entities. The equity method may be used in the case where additional information disclosure is provided in the notes to financial statements on the venturer's proportionate share of assets, liabilities, revenues and expenses of the incorporated entities. Under the equity method, the venturer records its initial investment at cost and then increases (decreases) this amount by its

proportionate share of profit (loss) declared by the venture. When a dividend is received by the venturer, the investment amount is reduced by the amount of dividend received.

"14. The cost method of reporting investments may be used, when the interest in the jointly controlled entity is acquired and held exclusively with a view to its subsequent disposal in the near future, or when the venturer is not in a position to exercise its rightful control over an international joint venture because of political instability, or when the venturer's ability to transfer funds from the venture to itself is significantly impaired by severe and prolonged restrictions. Under the cost method, a venturer records its investment at cost, and reports the investment as a single-line on its balance sheet. Profits earned by the venture are not recognized in the venturer's accounts until such profits are received.

"F. Transactions between the venturer and the venture

"15. The venturers may transfer assets to or from the joint venture or undertake other transactions with the joint venture. These transactions have implications for the recognition of profits or losses. The transfer of assets to the joint venture by a venturer as part of its contributed capital is not a sale. If the valuation of the contributed asset is higher than the book value, then it is an unrealized gain and not a profit. If the valuation of the contributed asset is lower than book value, it is a loss. However, when a venturer sells assets to the joint venture, it is assumed that the venturer is dealing with several independent parties (other venturers) and the venturer should recognize only that portion of profit attributable to the interests of the other venturers. In the case of a loss, the entire loss must be recognized since there has been an impairment of the value of the asset transferred. When a venturer purchases assets from the joint venture, it recognizes the profit or loss only when it resells them to a third party.

"G. Disclosures

"16. In order for the users of financial statements to obtain a clear understanding of its affairs, a venturer needs to make the following disclosures in its consolidated financial statements regarding its interests in jointly controlled entities:

"(a) Accounting policies of the venturer with respect to the investments in jointly controlled entities, including the reason(s) for choosing such policies;

"(b) Name of the joint venture, percentage of ownership interest, contributed and capital commitment for individually significant joint ventures or those which are publicly held;

"(c) In certain circumstances, each venturer may be liable for its share of the liabilities of the jointly controlled entities, and may be contingently liable for the other venturers' share of the liabilities. Disclosures should be made on the venturer's share of any contingencies and commitments of the joint venture, and on the extent of the venturer's responsibilities in the event of a default on the part of the other venturers;

"(d) If a venturer guarantees more than its proportionate share of a joint venture's indebtedness, this fact should be disclosed."

2. Accounting for environmental protection measures

24. At its 5th and 6th meetings, on 7 March 1991, the Group discussed accounting for environmental protection measures, as contained in the report of the Secretary-General (E/C.10/AC.3/1991/5). In introducing the item, the representative of the United Nations Centre on Transnational Corporations mentioned that the previous report on the subject had sparked interest among other groups and institutes. There also appeared to be a growing awareness among securities regulators and business executives. The observer for the Fédération internationale des experts-comptables francophones (FIDEF) stated that developing countries were interested in enjoying a certain quality of life rather than being depots for the developed world's industrial wastes. Unfortunately, such quality was hard to achieve because they did not have sufficient resources to set up control mechanisms or to monitor pollution. Therefore, developing countries were more dependent on international standards for protection. In the area of accounting, financial statements needed to begin to reflect the environmental risks and latent liabilities present in some business operations. More environmental information in financial statements would allow investors to choose less polluting investments. Where environmental information could not be quanti ed, it should at least be disclosed in the notes.

25. The observer for the International Confederation of Free Trade Unions (ICFTU) found the report to be excellent and the information disclosure required to be basic. Moreover, the Group had agreed at its eighth session on the information disclosure necessary in the board of directors' report. She asked whether, in terms of environmental contingent liabilities, existing international standards covered their recognition and measurement. In responding to her question, the Secretary-General of IASC said he found the report useful and valuable. Regarding the rules for recognizing contingent liabilities, they were contained in IAS 1, 5 and 10. However, the International Accounting Standards did not deal with information disclosure in the board of director's report since IASC restricted itself to financial statements themselves. He endorsed the view that at the present time it might be better to let things evolve and encourage better practices rather than laying down rules.

26. The expert from Brazil informed the Group that his country would act as host for the United Nations Conference on Environment and Development in 1992. If the Group wanted to encourage better practices among the preparers of financial statements, it could prepare a new report especially for that meeting in order to make colleagues aware of the issues. It would be a unique opportunity for the profession to be heard. He was of the opinion that, while rigid rules should be avoided, some formulation of recommendations was necessary. The expert from Jordan said that some developing countries needed guidance now. For example, in his region there were serious environmental problems and they would have to be considered in the financial statements of both transnational corporations and domestic enterprises. The problem of environmental contingencies would be acute; the problems had not been as extreme before the Gulf war.

27. One expert reminded the Group that it had agreed at its eighth session that environmental protection measures were an important matter. The new review of industry practices had revealed that it was possible to segment environmental expenditures, current and capital. He noted that some enterprises had also experimented with resource-based accounting, which allowed them to monitor the impact of their operations on the environment. Enterprises also produced special purpose reports on the environment from time to time, since there were other interested parties in addition to financial users. However, despite new research and review, he wanted to refrain from issuing rigid rules. He suggested that the Group should continue to review the content of the board of directors' reports.

28. Another expert questioned whether the segmentation of environmental expenses was really as feasible as suggested in the report. He noted the presence of such words throughout the text as "estimates", "judgement" etc. The resultant amounts were of a soft character, and so it was better at this point to leave it open to enterprises to do what was appropriate. Another expert responded that accountants always had a problem with estimates and the Group should not dwell on it. The important thing was to introduce the concept of "environmental accountability" and have environmental costs appear in board of directors' reports, financial statements and the auditors' reports.

29. The observer for FIDEF noted that the Group was an intergovernmental one and that while self-regulation was desirable, the Group should give some guidance in this area. Recommendations were needed both for the board of directors' report and the notes to financial statements. While IAS 1, 5 and 10 might be sufficient for normal contingent liabilities, he was not sure they were specific enough to deal with environmental liabilities. A number of experts from developing countries spoke of ensuring that companies provided certain minimum information and that the recommendations should go beyond those of the eighth session. It might be advisable to split the recommendations into those that were accepted and those requiring further consideration.

30. Another expert stated that it was necessary to give a true and fair view of operations in financial statements and that they should correctly evaluate environmental measures. The report demonstrated that this evaluation was practicable. He favoured issuing conclusions regarding information disclosure in the report of the board of directors, as outlined in the report. However, he was a bit hesitant on the question of contingent liabilities and thought it would be better to return to it at the ninth session after more review. The observer for Canada related how the Group's previous report had stimulated a great deal of interest in his country and that it was not perceived as final. He said the Group needed to express its view on the current report in order to encourage others to start or continue work in that area.

31. The Group decided to leave the recommendations section of the report (E/C.10/AC.3/1991/5, sect. IV) in its entirety but to change its title to "Conclusions for consideration by Governments and interested parties". The text of paragraphs 64, 66 and 67 was amended, changing the "shoulds" to "coulds", as necessary, so that it was clear that the conclusions were items to be considered rather than requirements.

32. Thus, the conclusions of the Group regarding the issue of accounting for environmental protection measures are as follows:

"Conclusions for consideration by Governments and interested parties

"1. The following are items that could be considered by the board of directors for inclusion in their report/management discussion in order to deal with relevant environmental issues:

"(a) The type of environmental issues that are pertinent to the enterprise and its industry;

"(b) The formal policy and programmes that have been adopted by the enterprise with respect to environmental protection measures;

"(c) In cases where no such policy and programmes exist, this fact could be stated;

"(d) The improvements in key areas that have been made since the introduction of the policy, or over the past five years, whichever is shorter;

"(e) The environmental emission targets that the enterprise has set for itself, and how the enterprise is performing relative to those targets;

"(f) The extent to which environmental protection measures have been undertaken due to governmental legislation and, the extent to which governmental requirements (for example, a timetable for the reduction of emissions) are being achieved;

"(g) Any material proceedings under environmental laws; management should disclose a known and potentially significant environmental problem unless it can objectively conclude that the problem is not likely to occur or, if it does, that the effect is not likely to be material;

"(h) The financial or operational effect of environmental protection measures on the capital expenditures and earnings of the enterprise for the current period and any specific impact on future periods;

"(i) When material, the actual amount charged to operations in the current period, together with a description of the environmental measures to which they relate. This amount might be subdivided into the following general ledger accounts:

"(i) Liquid effluent treatment;

"(ii) Waste gas and air treatment;

"(iii) Solid waste treatment;

"(iv) Analysis, control and compliance;

"(v) Remediation;

"(vi) Recycling;

"(vii) Other (for example, accidents, safety etc.);

"(j) In cases where it is not possible to segregate the amount that relates to environmental protection measures, this fact could be stated;

"(k) When material, the actual amount capitalized during the current period, the accumulated amount capitalized to date, and the period for amortizing, or writing off, such amounts, together with a description of the environmental measures to which they relate. This amount might be subdivided into the categories listed in (i);

"(l) In cases where it is not possible to segregate the amount that relates to environmental measures, this fact could be stated.

"2. As accounting policies are normally described in the notes to the financial statements, the following environment-related accounting policy notes could be included therein:

"(a) Recording liabilities and provisions;

"(b) Setting up catastrophe reserves (through appropriations of retained earnings);

"(c) Disclosure of contingent liabilities.

"3. As contingent liabilities are normally disclosed, if material, in the notes to financial statements, the following environment-related items could be included therein:

"(a) Liabilities, provisions and reserves that have been set for the current period, and amounts accumulated to date;

"(b) Contingent liabilities, with an estimate of the amount involved, unless the event is not likely to occur. The possible loss could be quantified to the extent reasonably practicable. If the possible loss cannot be reasonably calculated, a description of the contingent liability could continue to be furnished and the reason could be given why an estimate of the amount of the loss cannot be made. Completion of a feasibility study of remediation costs may be normally considered as the earliest date at which a reasonable estimate of the liability is possible."

3. Accounting and reporting during and after the transition from State to private enterprises

33. At its 7th and 8th meetings, on 8 March 1991, the Group had before it the report of the Secretary-General containing an overview of accounting and reporting during and after the transition from public to private enterprises (E/C.10/AC.3/1991/6). In the opinion of many of the experts, the report had achieved its modest aim of summarizing for the Group the objectives of privatization and the economic, financial and social conditions which influenced the choice of various financing techniques. That background information had set the stage for the discussion of accounting and valuation problems that could arise during the process. The representative of the Centre suggested that the study of those problems could be enriched through case studies of countries that had implemented such programmes: during the session, a number of experts had informed the Group about the experience of their countries and suggested that they be included in such case studies. It was mentioned that a distinction should be made between privatization of an entire economy or of a large part of an economy and privatization of one or more undertakings within an existing market economy.

34. One expert, in commenting on valuation methods, said that they should be considered as "objective" rather than "subjective", since they should be based on scientific criteria. He wanted to know who should appraise and evaluate enterprises to be privatized. In some countries, the task was given to special banks; perhaps it should be given to special professionals. The observer for the International Assets Valuation Standards Committee defined the "value of assets" as the amount a business would lose if it were deprived of those assets. He said that the value of property was equal to the sum of the value of land plus the gross replacement value of plant and equipment minus obsolescence. However, the appraiser must also take into consideration the profitability of the enterprise.

35. Another expert was of the opinion that the overriding method of valuation was the present value method since the entire operation had to be valued, not just the assets. The subsection of the report on accounting issues had underestimated the difficulties since the use of the present value method was closely linked with management accounting. In order to use the present value method, a good management system had to be in place. Therefore, many accounting problems arose because of the lack of good systems to track expenses and revenues. That lack ultimately made it difficult to value the operation using the present value method. Therefore, there was a strong link between valuation and management accounting systems.

36. A number of experts pointed out that in order to sell an enterprise to either domestic or foreign investors, it was necessary to have good accounting information. It was noted that accounting problems often started at an earlier stage, when a public department became a public corporation. Therefore, any future work on that topic should take into consideration the restructuring of bookkeeping accounts and systems and the preparation of accounting information.

37. The observer for the International Confederation of Free Trade Unions (ICFTU) said that valuation of an enterprise was particularly difficult when that enterprise had to be restructured and often the valuation depended on local

economic conditions. The valuation of enterprises in the former German Democratic Republic had been affected by the economic situation after unification with the Federal Republic of Germany. Many such enterprises were not competitive, could not be restructured or were not being restructured and would be closed. It was estimated that half the labour force would be unemployed as a result. The expert from Germany said that the privatization process was indeed under way in his country. A state-owned trust company, currently owned all the former kombinate and state-owned enterprises. Its task was to privatize, restructure or liquidate enterprises, which could not be run successfully under competitive conditions. To diminish the dilemma between privatization and restructuring, it was decided to give priority to privatization as soon as possible. The necessary restructuring would occur under the new private owner. Thus far, only 700 of the 8,000 to 10,000 enterprises had been sold. The privatization process was further complicated by the process of re-privatization: a general reassignment of property rights to the people whose property had previously been expropriated. That task also included the restitution of enterprises to their former owners. Political priority was given to the restitution but, given the necessity to create employment through economic growth, restitution could be overruled. In that case, compensation had to be paid to the former owners. The number of requests for restitution amounted to about 12,000, about 3,000 of which had been settled. One interesting accounting problem had arisen in the case of a number of enterprises that had previously been expropriated and then merged with other enterprises. The task was to split off the assets and liabilities so that they could be reassigned. He agreed that the choice of valuation methods depended on the situation. It seemed, however, that the most important factor influencing the final selling price was bargaining strength.

38. Experts from developing countries raised a number of issues that were of concern to those countries that had undertaken privatization programmes or would do so. First, there was the question why a Government should sell profitable enterprises; secondly, who would buy unprofitable enterprises. Many enterprises had been in the private sector in the first place and had been taken over by the Government because they were not viable. It was doubtful whether anyone would want to buy them. Very often in order to sell them, the Government had to restructure them and reduce the labour force. A third issue was the high cost of such sales, which, in some instances, ranged from 2.5 per cent to 13 per cent of the final sales revenues. The last question was how could the right price be set to avoid giving windfall gains?

39. One expert said that international organizations required the adoption of privatization programmes in some developing countries as a precondition for aid. Consequently, the Governments of those countries were forced to sell the profitable enterprises and were left with the unprofitable ones. That sometimes resulted in windfall gains to the private sector, while the Government faced continued deficits. It was obvious that guidelines were needed on when to privatize. Another expert said that there seemed to be an implicit assumption that only public enterprises ran at a deficit. That was not always true; in his country, 50 per cent of the private enterprises were in deficit.

40. An expert from a developed country replied to a number of questions raised by experts from developing countries. In explaining why a Government would ever sell a profitable enterprise he noted that the existence of a profit did not necessarily indicate efficiency but could indicate the existence of a monopoly. In that case, the Government would need to ensure that there was some regulatory control after privatization. In some instances, the Government sold profitable enterprises because it felt that it should not compete with the private sector. With regard to the determination of the right share price, it was extremely difficult to pick the correct one and Governments were criticized if the price set appeared low in hindsight, but they would also have been criticized had the price been set too high and the share issue a failure. Where share offerings were large, the Government usually priced them conservatively in order to ensure that all the shares were sold. The cost of sales was sometimes relatively high because of the many steps Governments were obligated to take in order to make sure the process was fair.

41. Another expert said that consideration of the topic was very timely and that transition to a market economy should be accelerated. In his country, the privatization law had been implemented in 1990. However, it would take at least 100 years to sell state enterprises, owing to the lack of domestic savings. Therefore, foreign direct investment was needed.

42. The Group decided that work in that area should be continued and that it should be enriched by country case studies. The main objective of further study would be to identify the accounting problems clearly and to indicate how they had been or could be solved.

4. Organization of the accounting profession and the role and qualification of auditors

43. At its 4th and 5th meetings, on 6 and 7 March 1991, the Group considered the report of the Secretary-General on the organization of the accounting profession and the role and qualification of auditors (E/C.10/AC.3/1991/7). There was much discussion about the term "accountant", which had different meanings in different countries. A distinction was drawn between accountants and auditors: both belonged to the accounting profession but not all accountants were auditors. The Group was reminded that there were many accountants in government service and that although they might not belong to professional bodies, they were qualified accountants and had an important role to perform.

44. One expert suggested that in view of the close nexus between accounting and auditing in the private sector and in the government sector, including the public sector, it would be useful if any new report on the subject were to include that particular aspect.

45. A number of experts were of the view that the report was very useful in that it was an informative summary of how the accounting profession could be organized. It would be helpful both to countries setting up professional bodies and to those needing to improve them. One expert raised the question of the relationship between the objectives of the profession and its education and training

requirements. He asked if, based on the report, the Group could agree on a minimum list of professional requirements. One said that four ingredients were necessary for an effective profession: (1) accounting and auditing standards, (2) a body of qualified people, (3) a professional body and (4) a standard-setting body. As far as he was concerned, the main international organizations (the International Accounting Standards Committee (IASC), the International Federation of Accountants (IFAC) and the Intergovernmental Working Group on International Standards of Accounting and Reporting) were concerned only with the first one. He asked who was going to help the third world in the education of accountants and in developing the accounting profession by setting up standard-setting and professional bodies. The mandates of those organizations did not provide for such help and, since there was no plan of action, a serious vacuum existed. The spokesperson for the Group of 77 and the observer for the Fédération internationale des experts-comptables francophones (FIDEF) said that accounting was a vital element for development and that if the third world was to develop, it would need to establish private professional bodies. Indeed, the development of the profession was inseparable from the development of developing countries, since those that had scarce resources had to be able to account for them. The survey of accounting needs in Africa, reviewed by the Group in 1990, should be more than a theoretical exercise. Ways and means had to be found to set up a professional institute in each country.

46. The observer for the European Community raised the question of who should undertake such actions, the future professionals themselves or government external donors. An expert from a country in transition replied that in setting up the profession and revising accounting regulations, a new institute might find it very difficult to train professionals and set standards without some assistance from the Government and/or international organizations.

47. The expert from Hungary explained how the transformation of the accounting profession was proceeding in his country. Important aspects of the new accounting law that had recently been submitted were that higher qualifications were required (which implied familiarity with international accounting principles, standards and practices); that, in contrast to the previous situation, which had demanded strict compliance with highly detailed accounting regulations, sound business judgement and responsible and prudent management were currently required; and that creativity in the development of an independent accounting policy for the company was called for. Under the new law, a self-organized professional body or bodies would guarantee the representation of the interests of the profession. Through the National Accounting Board that was to be set up, the law permitted the profession to take an active part in the work of regulation and in monitoring implementation. A training programme for some 100,000 accountants was being established in his country. By ensuring clear external social control, the disclosure requirement of the annual report would also raise the prestige and social standing of the profession. The extension of the mandatory audit requirement to a range much wider than before would also effect a change in the composition of the profession.

48. One expert said that the report should be improved by the inclusion of new information, such as recent developments in the accounting profession in China, the link between public and private accountants and the role of accounting in economic development.

49. Concern was expressed about auditors and their independence. Since many external users were totally dependent on their opinions, extreme care should be taken to preserve the independence of auditors. Among the possible safeguards mentioned were restricting individual client fees to 5 per cent of total fees, prohibiting auditors from giving management advice to their clients and eliminating the "limited" liability of auditors where that was the rule.

50. One expert said that, contrary to the implication in paragraph 91 of the report, there was no conflict between the independence of the auditor and legislation regulating the certification and supervision of the auditor. Such legislation could, instead, be a prerequisite for ensuring the integrity and independence of an auditor.

51. In concluding the discussion, an expert from a developing country said that it was important to reduce the gap in the profession in the third world and to raise professional standards. That would require external assistance. He did not understand how such assistance could possibly interfere with the independence of the profession. He saw no contradiction between technical assistance and autonomy. Furthermore, the Group had wanted a comprehensive accounting programme for years and while strong programmes had been developed in many other fields, technical assistance in accounting remained piecemeal and peripheral.

52. The Group was of the opinion that the discussion on the issue had been fruitful and enlightening. Distribution of the report of the Secretary-General to interested parties was encouraged.

C. Identification of accounting and reporting issues for discussion on a priority basis during future sessions

53. At its 11th meeting, on 12 March 1991, the Group identified the following issues for discussion during its tenth session:

(a) Accounting issues arising during privatization, including individual country case studies;

(b) Preparation of the topic for the 1993 session on education, training and the development of the profession in developing countries and countries in transition.

54. The Group agreed that any further work on environmental accounting, particularly the review of information disclosure in the reports of boards of directors, should be included in the reports on global and national developments.

D. Further steps to be taken in relation to the development of the comprehensive information system

55. At its 8th meeting, on 8 March 1991, the Group considered further steps to be taken in relation to the development of the comprehensive information system. It

had before it the report of the Secretary-General containing a description of the databases available in that system (E/C.10/AC.3/1991/8). A representative of the Centre described the overall structure of the Centre's information and database systems. The Group raised a number of questions about the number of user requests and the accuracy of information. The Centre's response with regard to the number and type of users is provided in the table.

Requests by category and type of requestor, 1990

	Requests made by													
	Governments		Intergovernmental organizations		Trade union organizations		Business organizations		Academic institutions		Media and public interest groups		Total	
	No.	Percentage of category	No.	Percentage of category	No.	Percentage of category	No.	Percentage of category	No.	Percentage of category	No.	Percentage of category	No.	Percentage
Developing countries	375	51	18	5	31	15	25	12	149	22	94	24	692	27
Developed market economy countries	251	34	52	13	135	66	178	86	412	61	158	40	1 186	45
Eastern Europe	111	15	--	--	24	11	5	2	74	11	33	8	247	9
International organizations	-	-	320	82	18	8	--	--	41	6	106	27	485	18
Total	737	100	390	100	208	100	208	100	676	100	391	100	2 610	100

A dash (--) indicates that the amount is nil.

A hyphen (-) indicates that the item is not applicable.

/...

E. Accounting and reporting issues arising out of the future code of conduct on transnational corporations

56. At its 8th meeting, on 8 March 1991, the Group considered accounting and reporting issues arising out of the future code of conduct on transnational corporations. A representative of the Centre informed the Group of the latest developments in the negotiations on the code of conduct. There were two major concerns. First, the language of the text was considered by some to be outdated, since parts of it had been drafted many years before. Secondly, since the code would be in the form of recommendations that were not legally binding, the implementation process would have to be carefully reviewed. The negotiations were in the hands of the President of the General Assembly, who would soon be organizing informal consultations. If the code were endorsed by the General Assembly at its forty-sixth session, it would establish a framework for foreign direct investment. He noted that whereas trade was governed by the General Agreement on Tariffs and Trade and finance by the International Monetary Fund (the Bretton Woods agreement), there was no instrument balancing the rights and responsibilities in foreign direct investment. He informed the Group that the latest developments in the code of conduct were described in document E/C.10/1991/8.

F. Appropriate measures to give effect to the work of the Group: renewal of the mandate and review of the objectives of the Group

57. At its 7th, 9th and 10th meetings, on 8 and 11 March 1991, the Group had before it the report of the Secretary-General entitled "Appropriate measures to give effect to the work of the Group: renewal of the mandate of the Group" (E/C.10/AC.3/1991/9). The Executive Director of the Centre reviewed the objectives of the Group and its accomplishments. Among the various achievements he mentioned were the preparation of a number of useful technical reports (on consolidation and segmentation, intangibles, pension costs, and environmental accounting and the report of the board of directors), the issuance of Conclusions on Accounting and Reporting by Transnational Corporations and Objectives and Concepts Underlying Financial Statements, the review of the use of international standards, the survey of accountancy development in Africa and the support for countries in the process of standard-setting through workshops and task forces. Nevertheless, he realized that the Group wanted to make changes in order to increase its effectiveness. In his opinion, such effectiveness depended on the availability of adequate resources, the attendance of experts on a regular basis and the desire to facilitate a fruitful exchange of views. Despite the fact that much had been accomplished, there was still much to be done in the way of implementing international accounting standards. The Group might promote the use of international accounting standards by supporting technical cooperation projects in the area of training, education, organization of the profession and creation of standard-setting bodies. Such technical cooperation projects could best be undertaken in conjunction with other international organizations. What was needed was a comprehensive and well developed technical cooperation programme.

58. The energizer for the Organisation for Economic Cooperation and Development (OECD) said that the Group was unique in that it was the only intergovernmental body considering accounting and reporting issues. It had served a useful purpose and achieved a great deal. He was of the opinion that the Group's mandate should be renewed, provided that the focus of the work changed. The Group should continue its work, avoiding duplication of the work of other organizations. He suggested a shift in orientation from discussion of technical accounting issues to technical cooperation. He was also of the opinion that it was not appropriate for the Centre to do fundamental research. He suggested that the Group change the pace of its sessions: it should meet every two years and in alternate years conduct a workshop on particular problems or on the problems of a particular region. It was understood that all members would be invited to attend such meetings.

59. Another expert, speaking on behalf of the Group of 77, said that the Group had only just begun to accomplish two of its objectives: to serve as a forum for the consideration of accounting and reporting issues and to support national and regional standard-setting. He stressed the importance of the Group, which was the only global intergovernmental body; others were either regional or non-governmental. Because the work of the Group was unique, it had more impact on developing countries since they relied on it when formulating their own standards. With regard to the suggestion about alternating regular meetings with regional ones, he said that the Group had yet to hold the two regional meetings in Africa that had been agreed upon at the eighth session. He recommended meeting annually, but reducing the duration of the session to one week. He said that developing countries needed to participate in that forum on a regular basis because there was so much to be done in developing countries with regard to the development of standards. In addition, the topics that were of most interest to developing countries had yet to be successfully dealt with by the Group, including foreign currency translation and transfer pricing.

60. A number of experts from developing countries suggested that if regional meetings were deemed desirable, the Group should consider participating in the annual meetings of regional accounting associations. Using those regional meetings as a forum would be both cost-effective and the best way to have an impact on the region. They wanted to retain the annual session because they needed a global forum in which issues of a global nature could be discussed. They said that the United Nations was the proper forum and it should continue to be the focus of attention for developing countries. For other regions, such as that covered by OECD, the need for the United Nations was not so great; for developing countries, the United Nations was critical. Particularly important was its ability to conduct research in the areas of special interest to them. Activities should be expanded to include technical assistance in the area of standard-setting.

61. Another expert agreed that the mandate should be renewed. The Group should continue to consider accounting standards and to help countries in their use. He was of the opinion that one year might not be a significant time period when considering national accounting developments. Another expert said that the Group had a number of achievements to its credit. He wanted to retain the annual format because a number of countries were undergoing significant economic reforms, which had implications for accounting.

62. An expert from a developing country stressed that the intergovernmental character of the Group gave experts in developing countries a basis for initiating accounting reforms. He said that research should be the point of departure for the Group's work and that there was still much to be done that was of special interest to developing countries. He said that "accounting standards" were not neutral and that the special needs of developing countries had to be incorporated. In addition, the Group should continue its vanguard role in certain research areas and should concretize its technical cooperation.

63. One expert then summarized the discussion: first, there was unanimous support for renewing the mandate; secondly, all agreed that the Group was important because it was an intergovernmental group; thirdly, many countries had special interests and the exchange of views was important to learn about developments in other countries; fourthly, there should be two types of sessions: regular sessions and those of a special nature, at which particular topics could be studied in depth.

64. An expert from a developed country said that since the Group was intergovernmental, its coverage was broader than that of other groups and its work complemented the work of other groups. The activities of non-governmental bodies such as the International Accounting Standards Committee (IASC) could not substitute for the work of the Group. While he supported the proposal to meet every year for one week, he was flexible and would support a session every two years with alternate meetings on specific topics.

65. The observer for the International Confederation of Free Trade Unions (ICFTU), as one of the long-standing participants in the meetings of the Group, spoke of the Group's unique focus. It dealt with accounting and reporting by transnational corporations from the perspective of both home and host countries. It was also concerned with the impact of transnational corporations on the national and international community; other forums were not. Therefore, when the Group considered an accounting practice, it had a wider range of users in mind. Frequently that perspective was added when the Group arrived at conclusions on a given subject (for instance, accounting for inflation or accounting for research and development expenses).

66. A number of questions were raised about the Uruguay Round, particularly concerning the proposals for mutual recognition of accounting credentials and the use of international accounting standards. If adopted, both could diminish barriers to trade and investment flows in services. Several members of the Group asked what role the Group could play in reviewing and/or implementing those proposals. The representative of the Centre explained that the proposals would probably appear as recommendations within the general framework agreement of the General Agreement on Trades and Services (GATS). However, once GATS was accepted, the mechanics for implementing mutual recognition and use of international standards would be left to the signatories. The Group might wish to involve itself at that stage. One expert from a developed country stated that the Group might not be the most effective one to take up the task. Other experts from developing countries stated that this Group was the only group that should be involved, owing to its intergovernmental character. Some experts from developed countries

indicated that it would be difficult to consider the role of the Group in the matter during the current session because the question was not on the agenda.

67. The observer for the Fédération internationale des experts-comptables francophones (FIDEF) noted the importance of the Group and the annual meetings to the developing countries, especially those that were at the initial stage of accountancy development. The Group provided the only opportunity to close the gap between countries with advanced accounting environments and those with less sophisticated environments. The annual exchange of views was fundamental to that process.

68. The Executive Director of the Centre intervened in the debate, noting that it might be best to consider the main recommendation, that is, giving consideration to global and regional issues, in terms of the impact on the structure of the Group's future agendas rather than on the place or pace of meetings. He thought that it would not be possible to separate research from technical cooperation since if technical cooperation efforts were to be well designed, they had to be founded on research. The Centre combined both research and technical cooperation and had a long-standing interest in the area of information disclosure.

69. After discussing paragraphs 36 and 37 of document E/C.10/AC.3/1991/9, the Group did not adopt the mission statement outlined in the report. Instead, the Group arrived at the following conclusions:

(a) The mandate of the Group should be renewed;

(b) In order to make the work of the Group more effective, it was desirable to extend the duration of the mandate from a three-year to a five-year period so that sessions on general subjects and sessions on specific subjects or on the problems of specific regions could be held in alternate years;

(c) The Group's sessions should be shortened from nine to seven working days;

(d) There should be a shift towards technical cooperation, particularly to meet the needs of developing countries and countries in transition in the development of the accounting profession and standard-setting.

70. The Group also decided to hold sessions on general subjects in 1992, 1994 and 1996 and sessions on specific subjects in 1993 and 1995. In 1993, training and education needs in developing countries and countries in transition would be discussed. Topics for other such sessions would be the problems arising from the transition from state to private enterprises and environmental accounting.

71. At the 13th meeting, on 14 March 1991, the Group adopted a draft decision (E/C.10/AC.3/1991/L.5), entitled "Renewal of the mandate and review of the objectives of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting", which had been submitted by the Rapporteur. The decision contained a recommendation for the Commission on Transnational Corporations (see sect. I, draft decision II).

G. Ways and means of improving education, research and practical training in the field of accounting and reporting in member States

72. At its 12th meeting, on 14 March 1991, the Group considered ways and means of improving education, research and practical training in the field of accounting and reporting in member States. The Centre reported that it had not been able to raise funds to hold the two regional meetings in Africa which the Group had requested during its eighth session. The study on accounting needs in Africa reviewed by the Group during its eighth session had been published and included profiles of the accounting environment in 37 countries. The Group requested the Centre to continue its efforts to organize the meetings and to work with regional and national accounting bodies, as well as other international organizations and departments within the United Nations Secretariat. The Centre should report any progress to the Group at its tenth sessicn.

III. ADOPTION OF THE REPORT OF THE GROUP ON ITS NINTH SESSION

73. At its 12th and 13th meetings, on 14 March 1991, the Group adopted the draft report on its ninth session (E/C.10/AC.3/1991/L.3 and Add.1-7), as revised and amended during the discussion.

IV. ORGANIZATION OF THE SESSION

A. Opening and duration of the session

74. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting held its ninth session at United Nations Headquarters from 5 to 15 March 1991. The Group held 13 meetings (1st to 13th meeting).

75. The session was opened by the Vice-Chairman of the eighth session, Mr. Talal Abu-Ghazaleh (Jordan).

76. At its 1st meeting, on 5 March 1991, the Executive Director of the United Nations Centre on Transnational Corporations spoke about the interrelationships between foreign direct investment, governance and international accounting standards. He noted that foreign direct investment had grown at an unprecedented rate during the 1980s and had surpassed the growth in exports and gross national product. Outflows of foreign direct investments amounted to more than $US 196 billion in 1989 and grew at an annual rate of 30 per cent from 1983 to 1989. However, only 17 per cent of those outflows had found their way to developing countries, an annual average of $US 29 billion. Ten countries accounted for three fourths of that amount. The unprecedented growth in foreign direct investments reinforced the need for a multilateral framework for foreign direct investment and raised anew the broader issue of governance in a world economy in which investment, trade, technology and financial flows were intertwined. Such a framework should include adequate international standards on information disclosure.

B. Membership and attendance 3/

77. In accordance with Economic and Social Council resolution 1982/67, the Group is composed of 34 members, elected on the principle of equitable geographical distribution. Two members from African States, one member from Asian States and one member from Latin American and Caribbean States remain to be elected.

78. The following States members of the Group were represented at the ninth session: Brazil, Chile, China, Cyprus, Czechoslovakia, Egypt, France, Gabon, Germany, Hungary, India, Italy, Jordan, Kenya, Malawi, Mexico, Morocco, Netherlands, Nigeria, Spain, Sweden, Switzerland, Turkey, the Union of Soviet Socialist Republics and the United Kingdom of Great Britain and Northern Ireland.

79. The following States Members of the United Nations were represented by observers: Bulgaria, Canada, Poland, Swaziland and the United States of America.

80. The Commission of the European Communities and the Organisation for Economic Cooperation and Development were represented by observers.

81. The following non-governmental organizations in consultative status with the Economic and Social Council were represented by observers:

Category I: International Chamber of Commerce
International Confederation of Free Trade Unions

Roster: International Assets Valuation Standards Committee

3/ With the approval of the Group, the following organizations attended the session: Arab Society of Certified Accountants, Fédération internationale des experts-comptables francophones, International Accounting Standards Committee and International Federation of Accountants.

C. Election of officers

82. At its 1st meeting, on 5 March 1991, the Group elected the following officers:

Chairman: Marta Aguirre (Mexico)

Vice-Chairman: Hazim Yousef Taha (Egypt)
A. C. Tiwari (India)
Nicolay Panteleev (Union of Soviet Socialist Republics)

Rapporteur: G. G. M. Bak (Netherlands)

D. Agenda and organization of work

83. At its 1st meeting, on 5 March, the Group adopted the following agenda, as contained in document E/C.10/AC.3/1991/1:

1. Election of officers.

2. Adoption of the agenda and other organizational matters.

3. Programme of work of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting.

4. Provisional agenda for the tenth session of the Group.

5. Adoption of the report of the Group on its ninth session.

At the same meeting, the Group approved its organization of work as set out in document E/C.10/AC.3/1991/L.1.

E. Documentation

84. The documents before the Group at its ninth session are listed in the annex to this report.

Annex

LIST OF DOCUMENTS BEFORE THE GROUP AT ITS NINTH SESSION

Document symbol	Agenda item	Title or description
E/C.10/AC.3/1991/1	2	Provisional agenda
E/C.10/AC.3/1991/2	3	Review of important current developments at the global level in the field of accounting and reporting by transnational corporations: report of the Secretary-General
E/C.10/AC.3/1991/3 and Add.1	3	Review of important current developments at the national level in the field of accounting and reporting by transnational corporations: report of the Secretary-General
E/C.10/AC.3/1991/4	3	Accounting for and by joint ventures: report of the Secretary-General
E/C.10/AC.3/1991/5	3	Accounting for environmental protection measures: report of the Secretary-General
E/C.10/AC.3/1991/6	3	Accounting and reporting during and after the transition from public to private enterprises: an overview: report of the Secretary-General
E/C.10/AC.3/1991/7	3	Organization of the accounting profession and the role and qualification of auditors: report of the Secretary-General
E/C.10/AC.3/1991/8	3	Description of the databases available in the comprehensive information system: report of the Secretary-General

Document symbol	Agenda item	Title or description
E/C.10/AC.3/1991/9	3	Appropriate measures to give effect to the work of the Group: renewal of the mandate of the Group: report of the Secretary-General
E/C.10/AC.3/1991/L.1	2	Status of documentation for the session: note by the Secretariat
E/C.10/AC.3/1991/L.2	2	Organization of the work of the session: note by the Secretariat
E/C.10/AC.3/1991/L.3 and Add.1-7	5	Draft report
E/C.10/AC.3/1991/L.4/Rev.1	4	Draft provisional agenda for the tenth session of the Working Group: note by the Secretariat
E/C.10/AC.3/1991/L.5	3	Renewal of the mandate and review of the objectives of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting: draft decision

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COMMISSION ON TRANSNATIONAL CORPORATIONS
Seventeenth session
10-19 April 1991
Agenda item 9

INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

Report of the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting on its ninth session

Corrigendum

1. SUMMARY, last paragraph

At the beginning of the paragraph insert

The Group discussed its objectives, roles and achievements and decided that it had made a useful contribution to the harmonization of accounting standards and the standard-setting process in many countries.

2. Paragraph 25, last sentence
Paragraph 26, second sentence

For better practices read best practice

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COMMISSION ON TRANSNATIONAL CORPORATIONS
Seventeenth session
10-19 April 1991
Item 10 of the provisional agenda*

STRENGTHENING THE NEGOTIATING CAPACITY OF DEVELOPING COUNTRIES IN THEIR DEALINGS WITH TRANSNATIONAL CORPORATIONS

Experience gained in training and the development of human resources

Report of the Secretary-General

SUMMARY

This report reviews and analyses in a systematic way the methodological basis, content and significance of the Centre's training activities. Since 1976 the Centre has organized, by itself or jointly, 261 training workshops, seminars and round tables, in addition to contributing one or more resource persons to such training activities held by other agencies and institutions. During the same period, the Centre also organized over 35 fellowships and study tours. Over 7,000 medium- and high-level officials have been trained in critically important skills in the workshops, and over 150 senior officials have benefited from the fellowships and study tours. These training activities covered a period of increasing globalization and technological complexity and changing attitudes, needs and perceptions of host countries which have, in turn, influenced the subject-matter, composition and thrust of the workshop programme and the geographical range of the participating countries.

The report has five sections. Section I describes the method used for identifying, planning, designing, preparing and executing workshop projects. Section II indicates the structure, location and types of training activities undertaken by the Centre and their frequency. Section III examines the analytical content of the major types of training workshops. Section IV contains questionnaire-based evaluations of the training workshops and section V summarizes the main conclusions emerging from this review.

* E/C.10/1991/1.

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INTRODUCTION

1. At its sixteenth session, the Commission on Transnational Corporations requested the United Nations Centre on Transnational Corporations to submit a report on experience gained by the Centre in implementing its technical cooperation programme. The present report responds to that request.

2. Since 1976, the Centre has been conducting various types of training activities as part of its technical cooperation programme. The training programmes are designed for government officials, managers, entrepreneurs and teachers. The expectation is that the training programmes will develop the skills of both government and private-sector officials, from developed and developing countries, to deal with transnational corporations. Upon request from these countries, the Centre conducts workshops and seminars, supports institutions of higher learning and organizes in-service training, study tours and fellowships.

I. TRAINING NEEDS AND REQUIREMENTS

A. Identification of training needs

3. The raison d'être for the Centre's training programme is the persistent lack by developing and certain other countries of clearly defined policies, as reflected in inadequate legislative regimes, on the role of foreign investment and technology in their economies and on the precise contributions expected of foreign enterprises and the parameters for the operations of those enterprises. Foreign investment and technology policies have been viewed in isolation or in an ad hoc manner, and they have not been properly integrated with overall national economic and social development objectives. There has also been an inadequate understanding of the structure and organization of transnational corporations, their motivations and strategies in investing in developing countries, the extent to which they can contribute to national development objectives and the areas where their objectives may not necessarily coincide with those of the host country.

4. Many developing countries are also without appropriate mechanisms for screening, evaluating and approving foreign investment and licensing and other contractual arrangements. Even where central agencies have been established, their powers and responsibilities have been ill-defined or they have not had enough authority to coordinate the policies of all the departments and agencies concerned. The multiplicity of agencies has led to the application of policies in an inconsistent manner. More importantly, the central agencies in many countries do not have the requisite expertise, information and manpower resources to discharge their responsibilities.

5. Another weakness in many developing countries is their inability to prepare adequately for negotiations with the transnational corporations on capital-intensive and complex projects in the natural resource or manufacturing sector. This has serious implications for the host country's economy since the benefits accruing from such projects depend on how well the contracts are

structured and how adequately the interests of the host country have been safeguarded. Deficiencies in this crucial area cover almost the entire gamut ranging from the selection of projects to the preparations for and conduct of the negotiations with the transnational corporations.

6. A root cause of the deficiencies is the lack of information and data on matters related to transnational corporations. A major function of the central screening agencies in many countries is the collection and analysis of data relating to foreign investment, technology and contractual arrangements with foreign enterprises. Many such agencies have increasingly improved their information capabilities, but even so, in a large number of developing countries, the information base is still weak and inadequate for the efficient development of a sound policy and institutional framework and for negotiating with transnational corporations and monitoring performance of these various transactions over time.

7. In recent years, Governments in developing countries have increasingly sought to devise attractive investment policies. They are aware of the competitive nature of the investment business and consequently, they have sought to bolster their technical capabilities in planning and evaluating, promoting and managing foreign investment projects. The policies of some of these countries have been somewhat restrictive in the past. As these restrictive policies change and a fresh look is taken of transnational investors, efforts have been made to relax foreign investment regulations. The Centre has responded to requests in this area through its advisory services and training programmes. Training is given at workshops on the national and international factors associated with devising a sound investment policy. Efforts are made to integrate the questions of regulations and incentives into wider discussions about national economic policy, particularly aspects of it dealing with fiscal matters. Other policy matters that are considered relate to foreign trade matters (tariffs and export incentives) and exchange rate issues. The totality of these policies, inter alia, affect the volume of foreign investment and its sectoral composition.

8. A closely related need of most developing countries is the acquisition of technology in order to boost domestic production, expand exports and reduce the importation of goods that can be produced locally. Many developing countries have now been able to develop some industrial or technological capability. They have relied heavily on inflows of technology from industrialized countries in the development of this capability. Much of the technology acquired by the developing countries has come with the establishment of joint ventures in the developing countries themselves by transnational corporations. The screening, monitoring and approving of investment projects and technology transfer agreements have been crucial for these countries. The Centre has responded to workshop requests dealing with the acquisition and transfer of technology and the linking of such transfers with foreign investment flows. Many developing countries have over the years established specialized bodies to scrutinize imported technology. The Centre has also been able to assist these countries by offering training to their professional staff.

9. The institution-building training requirements of many developing countries in the area of foreign investment and in technology transfer have been formidable.

The establishment of investment centres has become a necessity in many developing countries and through our workshops, fellowships and study tours, personnel in these centres have received advance level training on foreign investment and technology transfer issues. Reference is made elsewhere in this document to a sample of some of the requests for training which have been pursued through fellowships and study tours. The Centre has organized training programmes that have developed the capability of investment centres to streamlime and simplify their procedures. Countries such as Thailand and the Philippines are examples of countries where institution-building assistance has resulted in the establishment of "one-stop" investment centres. These centres have now become the single contact point for the granting of approvals for foreign direct investment. In other countries such as Angola and Nigeria, organizational reforms have led to simplication of the approval process for investment projects. It has also led to a sizeable increase in the transactions on foreign investments that these countries have been able to handle.

10. Based on requests received by the Centre, many developing countries require assistance in training officials on how to negotiate sectoral agreements in the natural resources sector, especially with respect to petroleum, mining and fisheries. A critical factor in this training is the need to impart skills on how to structure the fiscal and financial clauses of such projects. At many of these workshops, use is made of a computer model developed in the Centre. This model is used to perform financial and economic analyses and to demonstrate the effect of different variables on tax and royalty rates in a live negotiations situation.

11. Investment in the services sector is of importance to many countries and the position of transnational corporations in the sector is very significant. Requests for workshops in finance and banking increased noticeably between 1984 and 1989. Undoubtedly, this is a reflection of the concern in the global economy about debt, particularly debt contracted with major transnational banks. A detailed review of the content of workshops on finance and banking is given elsewhere in this report. Suffice it to say here that the workshop and study tours have provided many developing countries with the means of upgrading the skills of their policy makers who are responsible for structuring loan agreements, arranging the terms and conditions for external borrowing, managing their country's debt, supervising and controlling local financial institutions and engaging in negotiations with major international financial institutions.

12. Requests for assistance in the tourism sector also increased. In this regard, the majority of requests have come from Africa and the Caribbean. Many of the Caribbean countries depend on tourism for upwards of 80 per cent of their export earnings. The industry is vital to their economic and political survival. The Centre has responded effectively in conducting a number of workshops on tourism for senior officials in government and in the industry. The Centre has also taken part in industry-sponsored workshops in the Caribbean in order to learn first-hand the needs of officials in the various islands. The Centre has also taken part in workshops for African countries that have a sizeable tourism industry and whose Governments wish to ensure that the hotels which they own, but which are managed by major chains, generate appropriate linkages with the national economy and establish reasonable schedules for training local staff for key managerial and supervisory

functions. In some cases, countries that have approached the Centre requesting advisory assistance in reviewing major proposals by hotel-chain or a tourism development consortia have followed up by asking for training workshops (or fellowships and study tours).

13. This experience of tying advisory services to training programmes is not confined to the tourism sector. In the past, training workshops have also followed advisory assistance/reports with respect to technology transfer, transfer pricing, and major legislative changes.

B. Changing nature of training requirements

14. The need for a comprehensive review of the Centre's training programmes is evident in light of the many changes that have taken place in the world. The foremost issue to be considered is whether the training programmes are adapting and adjusting to the changing needs of host countries and whether participants make a difference in their jobs once they return to their respective countries. The initial response to the latter question seems to be that the programmes do, but a fuller discussion of this issue is reserved for section IV.

15. As investment centres are being created in many developing countries, efforts should probably be made to use them as the focal point of training activities relating to foreign direct investment and technology transfer. For greater coherence and effectiveness, the investment centres should be responsible for selecting participants and for ensuring that their training and experience are put to good use. The centralization of requests, as opposed to isolated requests from individual ministries, agencies, state governments, institutes etc., would not only ensure adherence to national priorities but would also be consistent with the tendency today to set up "one-stop" institutional structures for foreign investment matters.

16. With increasing liberalization and integration of the world's economy, many developing countries and newly opened economies need assistance in training the managers of both public- and private-sector enterprises in order to foster the development of their economies and to increase their competitiveness in markets abroad. The Centre therefore needs to respond to this by devising training programmes that focus not only on the traditional issues of foreign direct investment and technology transfer but also on such issues as accounting and valuation practices relevant to joint ventures, methods of privatization, information requirements for an investment promotion strategy, entrepreneurship development, institutional arrangements for evaluating investment proposals and physical zoning of foreign economic activity.

17. Many countries need a coherent training programme rather than ad hoc training projects. For really effective human resource development on matters relating to transnational corporations, requesting countries can benefit from a series of workshops on complementary and interrelated subjects in order to equip their officials adequately in this rapidly changing and interdependent world. Both Ghana and Nigeria have recently been beneficiaries of such a series. Financial and other resource constraints normally prevent the development of such a programme.

18. The development of a new problematique requires a change in the composition of training workshops. For example, within the last few years a considerable number of workshops have been held on debt restructuring, loan negotiations and resource mobilization. The new emphasis on export-oriented development strategies has also increased the need for workshops on export-processing zones. Similarly, in the coming years, many more workshops on industries and activities in the services sector are likely to be held. The issue of the impact of economic integration on foreign investment flows could also be the subject of greater attention, given the expected developments in Europe in 1992 and the addition of Mexico (and eventually other Latin American countries) to the United States/Canada free trade area, also in 1992.

II. TYPES OF TRAINING ACTIVITIES

A. Workshops/seminars

19. Workshops by the Centre can be divided into the following groups:

(a) Policies and regulations for negotiating with transnational corporations. These workshops enhance the capabilities of participants to prepare, negotiate and monitor joint-venture, technology, management and related agreements with transnational corporations;

(b) Primary and manufacturing sectors (fisheries, forestry, mining, petrochemicals, petroleum, pharmaceuticals and medical equipment, primary commodities). These workshops provide technical assistance in the development of policies and guidelines in the establishment of an appropriate legal and fiscal framework in the primary sector of a Government's economy;

(c) Services sector (engineering and construction, financial, general, international leasing, tourism). These workshops enhance the skills of participants who are involved in the service industry by improving their negotiating skills and providing a forum for them to exchange experiences and ideas;

(d) Specific issues such as environment, Export Processing Zones (EPZs), international accounting and reporting, technology transfer and transfer pricing. These workshops focus on a particular topic significant to the economic development of a country or region.

20. The training workshops of the Centre are intended to strengthen the capacities of middle-level and senior officials from public- and private-sector organizations who are involved in policy-making, negotiating or managing transnational investment projects. National workshops focus on practical issues that officials have to deal with in the normal course of their duties. The presence of private-sector persons is encouraged as a means of ensuring cross-fertilization of their views with the policy makers in government or in quasi-governmental institutions who are responsible for the operations of the commercial activities that involve transnational corporations. The regional workshops are undertaken in consultation with regional organizations such as the Economic Community of West Africa States

(ECOWAS), the Caribbean Community Secretariat (CARICOM) and the Association of South-East Asian Nations (ASEAN). These workshops facilitate the exchange of experiences among participants. Over the past 14 years, the Centre has organized 261 training workshops, seminars and round tables.

21. The level and the coverage of workshops vary considerably. General issues on foreign direct investment and the evaluation and establishment of joint venture enterprises form the bulk of the workshops. There are also specific workshops such as those on negotiating petroleum agreements. The faculty of a workshop is made up of international experts who have had considerable experience in their fields. In addition, the Centre also makes use of in-house personnel and has increasingly engaged regional experts to prepare and present papers. The experience of local and regional conditions on the part of the regional experts has greatly enhanced the quality of the workshops. The Centre has created a data base which contains references to all documents used at workshops. The data base allows timely selection to be made of background documents and provides a useful guide to the subjects that are covered in workshops. Also available in the Centre is a computer model used to teach project evaluation techniques, particularly at workshops on natural resource projects. Reference is made below to its use in petroleum negotiations.

22. The Centre's assistance to Eastern Europe requires special mention in view of recent political events there. In the Soviet Union, a workshop on special economic zones was organized in September 1989 and a series of seminars and meetings on accountancy was held during 1989/90. In March 1991, a large workshop on joint ventures was organized. In Yugoslavia, a high-level round table was held in February 1990 to discuss the establishment and operation of stock exchanges. Missions have been sent to Romania, and plans are under way to hold a training workshop there on foreign investment and privatization. In November 1990, an adviser from the Centre participated in a two-day UNDP training workshop in Albania.

23. Tables 1-3 give information on the distribution of workshops by sector, region, topic and type.

Table 1. Distribution of workshops, by sector, 1976-1989

	Number	Percentage
Negotiating with transnational corporations	54	24
Primary and manufacturing sectors	50	22
Service sector	35	15
Specific issues	89	39
Total	228	100

Table 2. Distribution of workshops, by region, 1976-1989

	Number	Percentage
Africa	59	26
Asia (including Western Asia) and the Pacific	97	42
Latin America and the Caribbean	52	23
Others	20	9
Total	228	100

Table 3. Distribution of training workshops on transnational corporations, by topic and region, 1976-1989

Activity/sector	Africa		Asia/ Pacific		Latin America/ Caribbean		Other	
	N	R	N	R	N	R	N	R
Negotiating	14	2	12	10	5	6	1	4
Primary/manufacturing sectors								
Fisheries		2		4		2		
Forestry				1				
Mineral	8	4	2	1	1	1		
Petrochemicals				1		1		
Petroleum	2	1	8	1	5			
Pharmaceuticals/medical			1			1	1	
Primary commodities						1		1
Service sector								
Engineering and construction	2	1			1			
Financial negotiation	2		5	8	1	2		1
General						3		3
International leasing			1					
Tourism			1		3	1		
Specific issues								
Environment		1						
Export-processing zones	2			1		1	1	1
Foreign investment	3	1	4	2		2		
Industrial cooperation		1			1			

Table 3 (continued)

Activity/sector	Africa		Asia/ Pacific		Latin America/ Caribbean		Other	
	N	R	N	R	N	R	N	R
International accounting and reporting and research			1				1	
International contracts	2		2			1		
Joint ventures		1	6	1		1	1	
Legal aspects/contractual arrangements	1		1					
National information systems				2		2		2
Screening and monitoring				1			1	
Technology transfer	2	1	7	4		1	1	
Transfer pricing			3	1				1
Transnational corporations and labour unions		1						
Training of trainers		3		5				
Entrepreneurship	2				9			
Total	59 (26%)		97 (42%)		52 (23%)		20 (9%)	

Notes: For 1988/89, of the approximately 1,385 persons trained, 16 per cent were women.

N = national; R = regional.

B. Training of trainers at institutions of higher learning

24. The Centre's programme of support to institutions of higher learning in developing countries culminated in the design of an interregional syllabus in three major areas: transnational corporations and economic development; international business and transnational corporations; and legal aspects of transnational corporations.

25. The course in economic development is intended for students with a background in economics or business studies. The first part covers the main theories of international production and the strategies that govern transnational corporation behaviour. Other course modules look at the organization and structure of transnational corporations followed by an examination of the contribution of transnational corporations to various areas of the development process, mainly from the point of view of the host country.

26. The course on international business and transnational corporations is designed for graduate students of business administration and commerce. It is in two parts. Part I places great emphasis on the theory of international business and transnational corporations. Part II presents 11 case studies which deal with specific subjects such as cost/benefit analysis, negotiating technology transfer agreements, exporting, country risk management, negotiating international business agreements and establishing joint ventures.

27. The third course - on legal aspects of transnational corporations - is also divided into several parts. Part I examines the nature and impact of transnational corporations in the world economy. Part II deals with the changing legal environment for transnational corporation activity in developing countries. Part III looks at accounting, financial and economic issues, while part IV focuses on domestic and international financing arrangements and exchange control practices. Part V examines the national regulatory framework; part VI considers taxation and transfer pricing; part VII examines various forms of agreements. In part VIII, there is a treatment of common clauses in agreements, while in part IX there is a detailed consideration of disputes resolution. Part X reviews selected transnational corporation agreements, part XI deals with negotiating agreements with transnational corporations and part XII looks at the changing investment relationship between transnational corporations and host countries. The final part is on the professional responsibility of the lawyer to a transnational corporation client and to a host government client.

28. It is significant to note that about 40 universities and institutes in Africa, Asia and Latin America have participated in the development of the curriculum. Many of them are now implementing it in varying degrees. These include such institutions as the East and Southern African Management Institute (law, economics and business) and the Universities of Singapore (law), Malaysia (economics), South Pacific (economics), Philippines (law), Sri Lanka (business), Nigeria-Awolowo (law), and Lagos (business). In Latin America, the University of Chihuahua in Mexico and the Universidad Catolica in Chile have both shown keen interest in incorporating the curriculum in their business departments. This is also true for the Universities of Botswana and Zimbabwe.

29. The Centre has also developed a programme of assistance to institutions of higher learning in the USSR and Eastern Europe in the area of accounting requirements in joint venture transactions in order to make their systems compatible with standard international practices. Curricula have been developed in international accounting for final-year university accounting students, and professors of financial accounting are being trained with respect to the content, methodology and modalities.

C. Entrepreneurship training

30. Empresas Tecnológicas (EMPRETEC) is a comprehensive, multistage technical cooperation programme designed and executed by the Centre to promote the creation and growth of innovative small and medium-sized enterprises using linkages with transnational corporations. Specifically, EMPRETEC activities aim at establishing an effective, self-sustaining and active coalition of public officials, entrepreneurs, corporate managers, bankers and executives of transnational corporations. This coalition provides the skills, technology, market opportunities, training programmes and technical information necessary to help small and medium-sized enterprises realize their objectives, expand their activities and establish productive, stable and equitable linkages with transnational corporations.

31. The EMPRETEC strategy is to put in place sound, viable businesses, provide them with active networks of supporters from government, banking, transnational corporations, academia, and international organizations; and work from the particular needs of those businesses to address the overall framework within which investment takes place. EMPRETEC works because the people involved have a stake in its success. In each country, an EMPRETEC executive committee guides the programme and oversees its implementation. The committee is composed of members of the emerging private sector, government, banking and trade institutions, and international agencies. The programme's structure, process and procedures are outlined as follows:

(a) Selection: An outreach campaign for participants is carried out in the press and through government and existing private institutions. Thirty candidates are selected for each workshop on the basis of written applications and personal interviews;

(b) Workshop: Candidates are given a 12-day intensive programme combining behavioural aspects of entrepreneurship and practical exercises which build the skills needed to plan and operate a small/medium enterprise. Included are strategies for working with transnational corporations to improve business potential;

(c) Business plan review: An advisory panel of bankers and businessmen reviews preliminary business plans developed in the workshop, makes suggestions for improvement and selects those with the most potential for development;

(d) Support centre: A professionally staffed support centre assists the projects selected for development in preparing complete business plans, in securing financing through appropriate institutions, companies or individuals, in developing links with transnational corporations and in getting the ventures under way. A fee is sometimes charged;

(e) Transnational corporation linkages: The support centre staff, assisted by consultants and executives from companies with transnational corporation linkages, help the entrepreneurs define their needs, decide if a transnational corporation linkage is appropriate and orient them towards the most beneficial relationship;

(f) Executive advisors: Businessmen and executives from larger national and transnational companies are available to act as advisers or serve as directors of the new enterprises so that the entrepreneurs can benefit from their experience;

(g) Mentors: Successful entrepreneurs/owners of small and medium-sized enterprises are recruited to act as one-on-one mentors to the selected candidates;

(h) Networking: Monthly meetings are held for participating entrepreneurs. Experts from the business sector provide information on practical issues of concern to emerging enterprises. Structured open forums are held to permit interchange among the participants on their problems and successes. Entrepreneurs are encouraged to form an association. A newsletter is published containing information about participants, potential business opportunities and topics of interest;

(i) Industrial incubator: Based on the experience gained from the programme's first year, a facility providing space, shared common services and incorporating the support centre may be established to house start-up companies from the programme for reasonable rents and fees until they are ready to move into commercial space;

(j) Developing self-training capabilities: At the outset, the programme depended heavily on an outside training firm. However, one of the most important objectives of the programme is the building up of "in-country" training capacity. Workshops in Argentina, Brazil and Uruguay are now led by regional teams, and new trainers are completing their preparation in Chile, Ghana and Nigeria. In total, 27 local trainers have undergone or are undergoing training and they are expected to conduct future entrepreneurship training workshops, not only in their own countries but also in the regional programmes. The exchange of ideas between countries with an already successful entrepreneurship training programme and those in the same region that do not have one will minimize the costs of the regional programmes, stimulate the transfer of business ideas and foster collaboration between entrepreneurs within the region.

D. Fellowship and study tours

32. As indicated above, the Centre arranges fellowships and study tours for officials from developing countries to investment institutions in other countries. In a number of instances, fellowship attachments at the Centre in New York were also arranged. Over 35 fellowships and study tours have so far been organized. Below is a sample of some of them organized thematically.

33. In September 1989, as part of its assistance to the Foreign Investment Board of Angola, a study tour was organized for high level officials to visit India, Malaysia and Thailand. The purpose of this tour was to allow the officials to review institutional arrangements for foreign investment.

34. Another category of fellowships and study tours has to deal with technology transfer. Arrangements were made in 1988 for officials in Malaysia to visit Brazil, Mexico and Argentina.

35. Training in information management was provided at the Centre in New York to government officials, to enable them to establish, run or enhance information services in national offices dealing with transnational corporations and foreign direct investment. Training involves familiarization with printed and computerized information sources - in particular, those covering developing countries; access to commercial credit services and online factual and bibliographic data bases; research methods; information technology requirements, staffing and organization. Officials who availed themselves of the training in recent years were from the following countries and organization: Chile, Czechoslovakia, Egypt, Ethiopia, Hungary, Papua New Guinea, Poland, the USSR and the Organization of Eastern Caribbean States.

36. Some fellowship and study tours were organized for persons wishing to have some experience in negotiating with transnational corporations. For instance, in 1988, the Centre arranged for two officials of the Indonesian Co-ordinating Board to attend a course on negotiating appropriate incentives with transnational corporations at the Irish Development Authority in Dublin.

III. ANALYTICAL CONTENT OF SELECTED TYPES OF TRAINING WORKSHOPS

A. Structuring, evaluation and negotiation of joint ventures

37. The Centre's workshops on structuring, evaluating and negotiating joint ventures review the emerging opportunities which transnational corporations might wish to take advantage of and the political and economic risks that affect and influence the decision to set up a joint venture with a particular country or partner. The workshops also examine the interests and objectives of host countries in allowing transnational corporations to set up business in their countries.

38. One key financial issue is discussed during negotiations in greater depth than others - namely, the cost/benefit ratios for both the foreign and national partners. Arriving at an acceptable rate of return for both parties in the joint venture is central to the negotiations on setting up the joint venture. Concepts such as discounted cash flow and the rigorous method for calculating internal rates of return are treated. Once the project is assessed to be financially and economically viable, the debt-equity modes of financing the respective capital contributions can be worked out.

39. In reviewing issues of equity, workshops consider questions of distribution, the capitalization of the enterprise and problems of valuation, debt-equity ratio, risks and liabilities, the system for distributing profits and the foreign exchange matters associated with the project. Emphasis is placed on the fact that the distribution of equity is sometimes bound by legislation but is also determined by the degree to which each partner wants to contribute to the company's assets, participate in the joint venture profits and growth of the company and have voting rights in these matters.

40. In examining management, control and monitoring issues, the following questions are dealt with: the appointment, composition and authority of the board

of directors; the appointment and authority of executive officers; the appointment of expatriate staff; the right of veto of the appointment of officers; the development of local managers; marketing and pricing decisions; strategic and operational planning; information systems and control procedures. Also discussed are managerial policies relating to dividends, reinvestment of earnings, supply of materials, export markets and commitments, executive compensation and bonuses and management agreements. 1/ The management agreements provide for transnational corporations to be compensated through a fee for the provision of managerial expertise in the joint venture.

41. Special attention is devoted to taxation and transfer pricing in joint venture transfer enterprises. The tax laws of the host country and international tax issues as they would affect the foreign joint venture partner are analysed.

42. The workshops also examine transfer of technology questions, marketing arrangements, environmental issues (including safety standards), employment, training questions and limitation on the use of expatriates. These matters are important to both joint venture partners but more so to the host country and the national partner who would normally have social and political responsibilities in the country in which the joint venture enterprise is located.

43. A number of general legal issues are also covered at workshops. Among them are the applicable law and dispute settlement procedures that have to be worked out between the partners to the joint venture enterprise.

B. Fiscal and financial arrangements with respect to natural resource projects

1. Petroleum

44. Workshops in the area of petroleum are organized as a means of developing greater and deeper understanding of the industry and recent trends in it. Attention is focused on producers as well as consumers. The workshops look at the economics of oil and gas production, the issues with respect to the negotiation of oil and gas exploration, production-sharing agreements, government organization and the regulation of oil and gas exploration and development, alternative forms of agreements with transnational corporations, and fiscal and financial issues.

45. The main focus of the workshop is on the fiscal and financial arrangements that form part of a petroleum agreement. In examining specific financial issues, workshops consider economic factors that affect exploration and development, the operating costs of production, the economics of civil works to support petroleum development, the well-head value of oil and gas and the overall cost/benefit analyses of exploration and development.

46. Workshop participants are made aware of the use of cash bonuses as upfront payments by foreign oil companies during the initial stages of operation. Attention is drawn to the different kinds of bonuses (signature, discovery, and production) common in the industry. Bonuses provide host Governments with funds

early in the life of a petroleum agreement. However, they could result in companies not spending much on actual exploration and cause them to insist on higher returns if discoveries are successful.

47. An important financial issue, the cash flow analysis of the petroleum project, is central to the presentations at petroleum workshops. Participants are taken through the methodology of the technique, and case studies are used to demonstrate its use.

48. On the fiscal side, workshops cover both national and international issues. Discussions on national fiscal regimes highlight policy issues in respect of the formulation of an appropriate fiscal regime for petroleum enterprises. Various schemes by which taxes are paid on net income are examined. Typical tax rates range from 40 to 85 per cent of the company's share of profits after other payments have been made. Many host country Governments have employed various measures to capture windfall profits made by oil companies. An excess or windfall-profits tax is usually levied. With regard to dividends and interest taxes, these are levied on the equity holdings of the foreign company.

49. On the international fiscal side, attention is paid at the workshops to the tax policies of the host country. Their creditability in the home country of the foreign oil company is examined with a view to drawing attention to the best legislative measures that could be adopted to allow the foreign oil company to have maximum tax credit in its home country while accepting a higher tax level in the host country. General accounting and auditing issues in the industry are examined, and key elements in accounting for costs, expenses and revenue in pre-exploration, exploration, appraisal development and production are discussed.

2. Mining

50. Workshops in the mining sector are organized for the purpose of strengthening the expertise of senior officials from ministries and agencies responsible for financial, fiscal and marketing matters with a view to upgrading their knowledge of the industry, thereby enabling them to negotiate better with transnational corporations. Workshops examine the issues that influence the selection of a foreign partner and the documentary information required in preparation for negotiations.

51. Particular attention is paid to financial and fiscal changes. Unlike petroleum, investment in mining occurs in cycles throughout the world in response to global economic conditions, periodic recessions and widespread inflation. All of these factors may sometimes be beyond the control of the host Government or the mining company itself. What is clear from experience and is demonstrated at workshops is that those economic factors have greatly influenced the financial and fiscal schemes negotiated between transnational corporations and host Governments. Flexibility in the agreements seems to be the watchword.

52. In focusing on sources of mining investments, participants are taught how to structure the loan and other agreements and how to evaluate the guarantees

specified in them. Other terms and conditions of financing are explained, such as repayment and grace periods, interest rates charged on loans and refinancing. The financial questions already mentioned in the case of petroleum are also discussed.

53. On the fiscal side, the workshops examine the general principles of mining taxation and relate the appropriateness of royalties and taxes to specific case studies. The taxation regime is perhaps the most important element of any mining policy, for it constitutes an important means for realizing many host government policy objectives.

54. Taxes are levied, as in petroleum agreements, on income, dividends, interest and remittances. Certain complicated accounting problems should be noted. The taxes do not raise production costs. At the same time, they can be credited against the transnational corporations taxes in its home country. The discussion above on international taxation issues for petroleum is applicable to the mining of hard rock. It is important to note that many agreements provide for one form of tax incentive or another (tax holiday, accelerated depreciation and amortization and import duty exemption). Some case studies indicate that "mini taxes" are sometimes levied in some countries. They are variously called administrative, export, surface and depletion fees. Their importance to the overall tax regime is, however, negligible. 2/

55. Other elements of mining agreements of an economic nature which are reviewed at workshops deal with pricing (especially transfer pricing), marketing and access to foreign exchange in the context of off-shore retention rights.

C. Contractual relations in the service sector

1. Finance and banking

56. The Centre's workshops in the services sector include a sizeable number on finance and banking. They vary in depth and length, depending on the socio-economic conditions, needs and experiences of the requesting country. Certain workshops seek to familiarize senior government officials in developing countries with the intricacies of negotiating commercial loans with transnational banks and other financial institutions. A second group deals with debt restructuring, debt management and international financial cooperation. Still others deal with specific issues of trade finance or debt-equity swaps.

57. The largest number of workshops dealing with finance and banking have been organized under the first category. They examine the present-day international financial market. Emphasis is placed on the changes that have occurred world wide and the blurring of boundaries between national financial markets due to telematics, deregulation, financial innovation and the liberalization of international trade. An analysis is made of past trends in lending by transnational banks to developing countries, growth in bank exposures to those countries and the regulatory instruments that govern international lending. Participants consider the macroeconomic and financial policies of the major developed countries and how those policies have affected international financial cooperation.

58. The second category of financial workshops focus on the issue of debt, starting with a historical review of the international debt crises from 1973 through the second crisis period of 1982 to the present. Two policy issues form the basis of much economic discussion at these workshops - i.e., debt management and adjustment. In considering debt management, participants re-examine government policies associated with new borrowing to refinance existing loans, rescheduling negotiations between creditors and debtors and debt conversion schemes. With respect to adjustment, the focus is on the role of the World Bank and IMF in assisting debtor countries to remove both macroeconomic and micro-economic distortions within their domestic economies.

59. The third category of workshops concentrates on such specific financial subjects as debt-equity conversions. The Centre has recently undertaken a major study on the subject, soon to be published as a guide. 3/ The main debt conversion schemes are analysed in that document, and concrete guidelines are provided for policy makers who are contemplating debt-equity conversion programmes. Other subjects treated are debt-for-debt swaps, debt-for-nature swaps, and the structure and operations of the secondary market for sovereign debt.

2. Tourism

60. The tourism workshops have concentrated on various forms of foreign participation in the hotel sector with a view to increasing the benefits of the industry to host countries. The major forms of such participation which have been examined have been management contracts and technical assistance agreements, equity/loan contributions and management, varying degrees of ownership and control, leasing arrangements, and franchise agreements. The most common forms are management contracts and technical assistance arrangements. Under management contracts, the hotels are usually 100-per-cent owned by the Government or by local interests, and a management agreement is entered into with a major hotel chain. This is usually to the hotel chain's liking and preference, since the chain is not called upon to bear any equity-related risks.

61. Workshops review the reasons for management agreements in the hotel industry. Many developing countries wish to attract tourists by using an internationally known trade name. They also want to have access to the hotel chain's international reservation system and to benefit from its group advertising, marketing and promotion. Developing countries also wish to employ the chain's administrative and financial systems and engage its managements skills to operate the hotel and to train local staff. Finally, developing countries also want to use the management agreements as a means of obtaining finance for the hotel.

62. Important contractual issues that are drawn to the attention of workshop participants have to do with the provision of development services, the standard of performance of the hotel chain, the rights of both parties to the control of operations, leases and rentals, employment and compensation of personnel, establishment of charges, purchase of supplies and equipment, maintenance and replacement, insurance, advertising and promotion, financial matters (loans, credit, budget, management and other fees, promotional expenses) and protective

provisions in respect of transfer pricing, theft and kick-backs and restrictive covenants. 4/ The importance of making sure that the fee attached to the management contract is performance-related is often stressed.

3. Engineering and construction

63. The workshops on engineering and construction contracts have become an increasingly important aspect of the Centre's training programme, a reflection of the fact that many developing countries have for some time been pursuing programmes for industrial expansion and modernization requiring the use of large-scale engineering and construction works.

64. The Centre's workshops on construction activities have been on general construction agreements and as on turnkey and semi-turnkey contracts. The following types of construction contracts are identified: design-supervision, supply equipment, erection, turnkey and semi-turnkey, product-in-hand and post-construction technical assistance. The legal issues reviewed cover the scope of the contract, the price and payment terms, modifications to the project, supervision and termination of contracts, performance guarantees, acceptances, sanctions and penalties, settlement of disputes and other standard clauses normally included in such contracts.

65. On turnkey and semi-turnkey contracts, the focus has been on analysing the terms of the contracts. This essentially refers to the obligation of the designer for the preparation and delivery of engineering and civil drawings, the schedule for delivery of the drawings, various guarantees and sanctions, the approval of the drawings by the owner, the obligations of the contractor to supply machinery and equipment, the obligations of the contractor with respect to start-up and initial operations of the plant and the obligations of the contractor to train local staff. The owner's obligations are also discussed. They relate to the provision of a site, construction permits, raw materials and supplies, housing and other administrative arrangements, and payments to the contractor.

66. With regards to dispute settlement, participants at workshops get to review procedures for ad hoc or institutional arbitration. Ad hoc arbitration is speedier and less costly, whereas institutional arbitration is expensive and time-consuming. In any event, stress is placed on the fact that the contracts must specify the choice of arbitration.

D. Specific issues

1. Transfer of technology

67. In a document submitted to the Commission at its fifteenth session, the Centre outlined the experiences in technical cooperation activities with respect to the policies of developing countries for the acquisition of foreign technology. 5/ The document discussed in detail a number of policy issues relating to absorption, adaptation and regulation of foreign technology. The issues are taken up at

workshops as well. It is emphasized in the workshops that technology policy should be closely linked to economic and industrial policy. The technology that is being transferred from transnational corporations should contribute to the growth of indigenous capability and should be secured on reasonable terms and conditions.

68. The central consideration of the workshops is the contractual arrangements for acquiring foreign technology. Key issues in the agreements are the definitions of the technology to be transferred, the duration of contracts, the renewal and guarantee clauses dealing with access to foreign-based improvements, grant-back of improvements to the technology made by the local recipient, size and type of fees and other payments, other restrictive business practices, training, quality control, applicable law and dispute settlement.

69. Clauses in technology contracts that deal with improvements, grant-back provisions and payments and training are especially important. Workshop participants are informed that it is important for their Governments to have access to all improvements made by the technology supplier. They are also advised on payment arrangements for technology transfer with a view to ensuring that such payments are linked to profits or production and that lump-sum payments are only agreed upon when it can be assured that the technology and know-how package can be fully and completely transferred at the time of purchase. With regards to training, it is emphasized that the period, level and number of individuals to be trained and the location of the training should be clearly specified in the contracts.

70. Many of the above-named factors are discussed at workshops in the context of appropriate regulations and policy guidelines for the transfer of technology. It is recognized that developing countries have to maintain a certain degree of regulatory flexibility in order to be able fully to access the rapid technological changes and improvements that are occurring in today's industrial world.

2. Transfer pricing

71. The regulation and control of transfer pricing is important for both developed and developing countries. Some developed countries consider the problem serious and have begun to do something about it. It has been recently reported in the financial press that the United States and European tax authorities are to cooperate more closely in efforts to deal with tax avoidance by transnational corporations through the manipulation of transfer prices in their internal operations. 6/ The United States tax authorities have estimated that they "lost" over $US 12 billion in the 1980s as a result of the abusive practices of foreign subsidiaries in their country.

72. The Centre's workshops consider various reasons for the practice of transfer pricing by transnational corporations, the modes employed for effecting it, and the methods used by tax and other authorities for controlling it. For developing countries, the practice can lead to foreign exchange losses through over-invoicing of imports and under-invoicing of exports. This can result in balance-of-payment problems, losses of tax revenues and industrial dislocation.

73. As for control measures, workshops review legislative measures that could be used to control transfer pricing. The first measure is the adoption of appropriate tax and customs laws. Laws prohibiting restrictive business practices - e.g., the tying of inputs to a particular source - also are essential. Then there are laws that regulate and set accounting practices and standards for companies operating within the host country jurisdiction. In drawing up legislation to control transfer pricing, participants' attention is drawn to the question of the definition of the transnational corporation group and the issue of the control of the enterprise in question. The purpose is to ensure coverage of the relevant transactions of the entire transnational corporation, including its affiliates. Legislation should, in addition, determine the basis for the calculation of an appropriate fair market or "arms length" price which could govern the transaction between a transnational corporation and its subsidiary or affiliate.

74. Some institutional measures are also taken up in the workshops. The role of central banks and other government agencies in monitoring and controlling restrictive business practices is examined. In addition to possible national measures, the attention of workshop participants is drawn to a number of regional efforts made in Asia, Africa and Latin America and to international efforts within UNCTAD and the Commission on Transnational Corporations.

3. Special economic zones

75. Special economic zones are sometimes referred to as export processing zones (EPZ) or export-free zones. They have come about as a result of structural changes that have been taking place in the world economy. They are defined as specialized industrial estates which produce mainly for export and which, by practising free trade, constitute an enclave from the normal trade and customs regime of a country. 7/ This broad definition covers free ports, free trade zones, customs-free zones, free economic zones, industrial free zones and foreign trade zones, to a lesser or greater degree.

76. In organizing workshops on export processing zones, the Centre examines the rationale for their establishment. The Centre looks at the role of transnational corporations in the manufactured exports of developing countries and at the economic activities undertaken in export processing zones. Special attention is paid to the electronics and textile industries, which are two of the industries most commonly found in export processing zones. Other items that are manufactured or assembled in such zones are footwear and leather products, plastics, toys, watches and sports equipment.

77. The workshops consider host country objectives in setting up export processing zones. Many countries perceive the zones as a means of enhancing their industrialization programmes. Others see them as sources of export promotion and job creation or as a step towards the programmed integration of their economies into the international economic system and a platform for creating linkage effects between transnational corporations and the domestic market.

78. The costs of setting up export processing zones are also analysed. There are direct costs which are linked to the development, operation and maintenance of the

zones. Much of this has to do with the construction of infrastructure, factory buildings and residences by the host country and the operation of a modern telecommunications system. The indirect costs have to do with revenue losses from fiscal incentives such as tax waivers, tariff and custom-duty exemptions, allowances and subsidies. Both revenue losses and subsidies can be significant and have to be weighed against the potential gains referred to above.

79. The workshops also discuss the legal and institutional framework for screening and monitoring export processing zones. The main features of the special laws, regulations and guidelines adopted by host countries are analysed. Finally, the success or failure of the zones is evaluated. In some countries, they have worked well; in others they have not. Workshop participants are reminded of the fact that the last word on export processing zones, as a viable strategy, has not been heard.

IV. QUESTIONNAIRE-BASED EVALUATION OF TRAINING WORKSHOPS

A. Nature of sample and workshop questionnaire

80. It has been the practice of the Centre to conduct a detailed survey among participants at the conclusion of each training workshop. Participants are invited to complete questionnaires evaluating the adequacy and appropriateness of subject coverage, the quality of lecturers and the effectiveness of their presentation, and the utility of the background documentation distributed at the workshop. In an attempt to elicit more accurate responses, the questionnaires have undergone some modification over the 1976-1990 period.

81. For purposes of evaluation, the Centre divided training workshops into five categories:

(a) Policies and regulations for negotiating with transnational corporations;

(b) Sector-related workshops;

(c) Specific issues;

(d) Entrepreneurship;

(e) Training of trainers at institutions of higher learning.

From 1976 to 1990, the Centre completed a total of 261 workshops; however, the questionnaire-based evaluation covers only 55 of them, the selection being based on the availability of written responses at the Centre. Out of the 55 workshops evaluated, 18, or 32.7 per cent, related to policies and regulations for negotiating with transnational corporations. Nineteen (34.5 per cent) were sector-related; 13 (23.6 per cent) were on specific issues; and three (5.5 per cent) related to entrepreneurship. The remaining two workshops (3.6 per cent) focused on the training of trainers at institutions of higher learning. The training programmes were interdisciplinary in scope, involving economic, legal, financial, administrative and technical elements. They were

designed to enable the participants to acquire increased professional and/or technical knowledge, in addition to operational experience, so as to be more effective in dealing with issues that arise in the relationship between transnational corporations and host countries.

82. The workshops were held at the national, regional and interregional levels. Most workshops were held in developing countries, from the least developed to the relatively more advanced, but a few also took place in developed countries. The geographical distribution of workshops covered by the questionnaire-based evaluation was as follows: Africa, 17 (30.9 per cent); Asia, 27 (49.1 per cent); Latin America, 8 (15.4 per cent). Three workshops were held in developed countries.

83. The workshops are conducted by an average of from three to four lecturers and last from three days to two weeks. The general issues workshops - policy frameworks for dealing and negotiating with transnational corporations - tend to last longer because the participants come from various backgrounds and the topic coverage is wide, whereas the participants at specific-issue workshops tend to have a fair amount of knowledge of the issue and so are capable of absorbing specialized information in a short period. Because they normally have a great deal of responsibility, high-level officials cannot stay away from work for long periods and generally prefer short workshops. The number of participants is normally 20-35. However, in more populous countries, workshops have had up to 120 participants.

84. Participants at the Centre's training workshops complete a questionnaire containing 19 questions. For purposes of evaluation, the quality of lecturers and the appropriateness of background documentation are rated on a scale of 1-5, with 1 being the highest - representing "very good"; the others represent "good", "adequate", "poor" and "very poor". The usefulness of the workshop to the work and career prospects of participants is rated on a scale of 1-4: "benefited very much"; "reasonably well"; "only a little"; "not at all". The effectiveness of presentation, or pedagogical aspect, of the workshop is rated on a scale of 1-3, for "very good", "good" and "adequate".

B. Questionnaire results

1. General workshops

85. The averages of the evaluation scores for the 18 workshops on policies and regulations for negotiating with transnational corporations are given below:*

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* The figures were computed as follows: For every policy and negotiations workshop, the percentage of the responses under the 4 attribute categories was calculated. Those percentages for the 18 workshops were then averaged. Then the figures for each ranking (1-5) were averaged. This aggregation exercise was repeated for the other four major types of workshops.

Attribute category	Rating (percentage)				
	1	2	3	4	5
Lecturers	49.0	41.0	10.0	--	--
Documentation	32.4	48.7	18.9	--	--
Presentation	44.0	46.0	10.0	..	..
Usefulness	36.0	56.0	8.0	--	..
Average	40.3	48.0	11.7	--	--

86. Overall, nearly 90 per cent of the participants gave the workshops a "very good" or "good" rating. However, over 10 per cent gave only an "adequate" rating, probably partly because of the lack of homogeneity and similarity of interest among the participants, given the very wide scope and general nature of the subject matter. A few participants felt that the workshops tended to assume the character of a university-like seminar with not sufficient concern for practical on-the-job usefulness. Some of the participants also felt that the documentation should have been available days before the beginning of the workshop so that, with prior reading and increased understanding of the subject matter, greater benefit could have been derived from the actual lectures.

2. Sector-related workshops

87. The averages of the evaluation scores for the 19 sector-related workshops are given below:

Attribute category	Rating (percentage)				
	1	2	3	4	5
Lecturers	51.8	42.4	5.8	--	--
Documentation	43.0	50.0	7.0	--	--
Presentation	47.0	46.0	7.0	..	..
Usefulness	40.0	50.0	10.0	--	..
Average	45.5	47.0	7.5	--	--

88. Overall, well over 90 per cent of the participants thought that the workshops were either "very good" or "good". The higher rating for this type of workshop may be partly related to the element of specificity in the subject matter. Thus,

moving from the general to the specific, the spread in the rankings of the "usefulness" category gets smaller.

3. Specific-issue workshops

89. The averages of the evaluation scores for the 13 specific-issue workshops are given below:

Attribute category	Rating (percentage)				
	1	2	3	4	5
Lecturers	45.0	45.0	10.0	--	--
Documentation	40.0	52.0	8.0	--	--
Presentation	38.4	53.0	8.6	..	..
Usefulness	41.9	45.4	8.7	--	..
Average	42.3	48.9	8.8	--	--

90. As in the case of sector-related workshops, the overall ranking is high, with well over 90 per cent of the participants giving either a "very good" or "good" rating. The reason for the results are the same: the workshops are more focused and narrowed down to a specific problem - e.g., transfer pricing or transfer of technology.

91. However, certain country differences are discernible. While participants from countries with little exposure to transnational corporations tend to rate introductory topics, such as transnational corporations in development and the nature of transnational corporations, relatively high, those from more complex economies are more interested in in-depth discussions of specific issues - for example, acquisition of technology in the petroleum sector - and prefer an expert who specializes in that particular aspect rather than in acquisition of technology in general.

92. Similarly, the participants tend to want the workshop to be structured to an even greater degree around issues particularly pertinent to their country or region. They suggested that the Centre include in the faculty developing country experts with hands-on experience in the host country or region. They also wanted analyses of case studies of failed and successful projects in their regions.

4. Entrepreneurship workshops

93. The average ratings of the workshops designed to identify and train local entrepreneurs are given below:

Attribute category	Rating (percentage)				
	1	2	3	4	5
Lecturers	80.0	20.0	--	--	--
Documentation	56.1	33.8	10.1	--	--
Presentation	70.7	29.3	--	..	..
Usefulness	70.0	30.0	--	--	..
Average	69.2	28.3	2.5	--	--

94. These workshops have a very high rating: nearly 100 per cent of the participants graded them either "very good" or "good". The participants feel they have learned skills that would go a long way towards their own individual improvement as entrepreneurs and the development of their national economies.

5. Workshops on the training of trainers

95. The average ratings of workshops on the training of trainers are indicated below:

Attribute category	Rating (percentage)				
	1	2	3	4	5
Lecturers	76.4	19.5	4.2	--	--
Documentation	36.0	51.4	12.6	--	--
Presentation	48.7	47.2	4.1	..	..
Usefulness	50.0	45.9	4.1	--	..
Average	52.8	41.0	6.2	--	--

96. These workshops are generally well received, partly because they are designed and catered to meet the needs of a very particular group of participants.

C. Selected measures for increasing workshop effectiveness

97. With respect to the five types of workshops described above, perhaps the most frequently expressed desire of participants was to see more simulations and case studies. The Centre feels that this need must be more vigorously addressed while keeping the proper balance between lectures, simulations and case studies. The Centre has begun preparation of a negotiations film, inter alia. Partly related to

the case study problem is the wish sometimes expressed by participants to be exposed to experts with hands-on experience of the specific country or region. To help grant this wish, the Centre is intensifying its efforts to have at least one local/regional expert on the workshop faculty, wherever possible. The Centre is also increasing its efforts to ensure that the pertinent issues and prevailing problems of a region or country are identified before each workshop and that each of the lecturers addresses them during their particular lectures. In addition, the Centre has on occasion commissioned specialist papers on the pertinent issues or asked certain participants to prepare a short presentation on their country's or region's experience.

98. There are certain serious logistical problems in making the background documentation available to the participants a number of days before the start of a workshop. One major problem is that the authorities invariably do not identify the participants early enough. This is particularly the case with regional workshops. Also there can be many last-minute changes with respect to the designated participants. The Centre is exploring the possibility of making at least one essential document available well before the start of the workshop, to give participants prior feel of the subject matter.

D. Impact of the training workshops

99. In certain respects, the Centre's training programme has had a visible and almost immediate impact. For example, under the entrepreneurship training programme, 200 business plans have been prepared and analysed by the voluntary private-sector selection committees and over 50 new businesses have been started. In addition, nearly 100 existing enterprises have expanded their activities. Some 30 joint ventures, sales agreements and technology transfer arrangements between participant entrepreneurs have been generated.

100. In other areas, the impact is difficult to quantify. However, the training activities of the Centre have made an important contribution to resource development. With an average of approximately 20 training workshops per year, over 7,000 participants have been exposed to knowledge relating, inter alia, to formulating appropriate legislative frameworks, instituting mechanisms and procedures for evaluating investment proposals in various sectors and utilizing effective techniques for negotiating mutually beneficial arrangements with transnational corporations.

101. Although training is not a complete substitute for experience, as a result of the efforts of institutions like the Centre, countries are now in a much better position to deal with transnational corporations in an increasingly complex world. For example, it can be seen from the questionnaire-based responses that the training was felt to be useful for both policy-making and carrying out every-day functions. There is also some evidence that the participants actually utilized the skills acquired at the Centre's training workshops and that their career development was enhanced.

102. Such evidence is contained in the results of a follow-up questionnaire of the regional participants who attended two ASEAN co-sponsored training workshops: "Negotiating with Transnational Banks" (13-24 February 1989) and "Financial

Management and Supervision" (12-21 July 1989). The choice of these two training workshops was based on the perception that the groups of participants were fairly homogeneous and all worked in relevant financial agencies. It was also felt that it would be easier to track and locate the participants from fairly recent workshops and that the subject matter of the workshops would still be fresh in their minds.

103. Of the total of 74 participants (eight from the private sector) in the two workshops, 29 returned completed questionnaires. The questionnaire was designed so that each participant would indicate the position occupied at the completion of the workshops and the position currently held. Those who were still in the same department were asked to complete a certain set of questions; those who had changed jobs were asked to complete a different set. In addition, there were some questions that both sets of participants were asked to complete.

104. Approximately 80 per cent of the respondents said they were in the same department. Of them, half said that they were occupying a higher position or were assuming greater responsibility. Half of those same beneficiaries thought that the training was to a significant degree responsible for their improved status. The other half either did not answer the question or felt that the training was probably only somewhat responsible for their advancement. More than one half of the respondents said that they had suggested new approaches and techniques to their supervisors or had passed on some of their new knowledge to colleagues as a result of the training, while the remainder were equally divided between not having done so or not answering the question. Generally most of these respondents felt that their understanding of the structuring, drafting and monitoring of loan terms and conditions had improved, although some felt that the peculiarities of their workplace or functions did not allow full scope for the utilization of the training they had received. A few participants also suggested that in future workshops relating to banking, the Centre should make greater use of commercial bankers in its faculty.

105. Of the respondents who had changed jobs (two thirds within six months of the workshops) three quarters stated that they were in a new field and that the training received was not relevant. Most of them stated that they had not been able to utilize the skills learned in their training before leaving their previous offices. This may suggest that those persons should not have been chosen to participate in the workshops in the first place, given the apparent inappropriateness of the training to their job functions.

106. Finally, some of the respondents felt that intensive follow-up courses on new financial instruments and resource mobilization techniques would be appropriate and that greater use of simulation exercises would be useful.

V. CONCLUSIONS

107. In the developing world, economic difficulties have triggered a search for new policy alternatives and there has been a marked shift towards liberalization of foreign investment regimes. Major macroeconomic reforms have been undertaken, prompted in part by the World Bank and IMF as well as by sheer pragmaticism. The

market economy model is in vogue, and countries are seeking vital inflows of resources in order to sustain reasonable levels of economic performance. The Centre's training programmes will continue to be demanded by these countries so as to ensure that they derive maximum benefit from the investment of foreigners in their economies.

108. The open economies of the Eastern European countries will need assistance in establishing market-economy types of institutions and operations. The vast majority of their business people, particularly at the factory and enterprise levels, have not been exposed to direct foreign contacts and negotiations. The Centre could play a useful role in assisting those countries, particularly in the area of company law, general and sector-oriented investment legislation, market-economy types of accounting and auditing and modern management of private and public enterprises. The international syllabi for the training of teachers at universities of higher learning could be suitably adapted for use in the universities and colleges of countries in Eastern Europe. The Centre can also assist in the process of privatization and in the establishment of special economic zones.

109. The Centre also sees need for further enhancement of its programmes on entrepreneurship training. The programmes currently under way in Africa and Latin America have been very successful, and efforts must be made, through appropriate funding, for them to be extended to the open economies of Eastern Europe and some countries in the Asia and Pacific region.

110. The Centre's fellowship and study tour programmes have proved to be a useful form of on-the-job training for many senior officials in government. Moreover, the programme has fostered greater links between officials in different parts of the developing world. However, trust funds cannot be used for that type of activity, and so there is total reliance on indicative planning figure resources or special financing which beneficiary countries might make available.

111. Transnational corporations are part of global economic life. It is essential therefore for the Centre to impart the required knowledge about them so that host countries can derive maximum benefit from whatever type of partnership is arranged. Transnational corporation capital, technology and management skills can be harnessed in the furtherance of the economic and social goals of the host countries, particularly developing countries.

Notes

1/ See Arrangements Between Joint Venture Partners in Developing Countries (United Nations publication, Sales No. E.87.II.A.5).

2/ Main Features and Trends in Petroleum and Mining Agreements (United Nations publication, Sales No. E.83.II.A.9).

3/ UNCTC, "Debt equity swaps. A guide to decision makers" (United Nations publication, forthcoming).

Notes (continued)

4/ Negotiating International Hotel Chain Management Agreements: A Primer for Owners in Developing Countries (United Nations publication, Sales No. E.90.II.A.8).

5/ "Experience gained in technical cooperation activities with respect to policies of developing countries for the acquisition of foreign technology" (E/C.10/1989/10).

6/ Financial Times (London), 18 September 1990.

7/ "An evaluation of export processing zones in selected Asian countries" (ST/ESCAP/395).

Annex

TRAINING WORKSHOPS, SEMINARS AND ROUND TABLES
ORGANIZED BY THE CENTRE IN 1990

GHANA, Accra	WORKSHOP ON INTERNATIONAL CONSTRUCTION AGREEMENTS 15-19 January 1990
GUINEA, Conakry	NEGOCIATION DE L'INVESTISSEMENT ETRANGER EFFECTUE PAR LES SOCIETES TRANSNATIONALES CAS DE LA CO-ENTREPRISE (JV) 22-27 January 1990
YUGOSLAVIA, Zagreb	HIGH-LEVEL ROUND TABLE ON STOCK EXCHANGE AND FINANCING OF HIGHWAYS THROUGH FOREIGN INVESTMENTS 6-8 February 1990
SIERRA LEONE, Freetown	WORKSHOP ON DIVESTITURE AND PRIVATIZATION 26 February-2 March 1990
NIGERIA, Enugu	TRAINING OF LOCAL ENTREPRENEURS 26 February-9 March 1990
BANGLADESH, Dhaka	ESCAP/UNIDO/UNCTC WORKSHOP ON TRANSFER OF TECHNOLOGY FOR ENTREPRENEURIAL DEVELOPMENT IN BANGLADESH 4-8 March 1990
INDIA, New Delhi	FOREIGN DIRECT INVESTMENT IN INDIA 15-16 March 1990
USSR, Moscow	INTERNATIONAL WORKSHOP ON NEGOTIATING JOINT-VENTURE AGREEMENTS 19-23 March 1990
THAILAND, Phuket	REGIONAL WORKSHOP ON FOREIGN EXCHANGE POLICIES AND MANAGEMENT 19-23 March 1990
NIGERIA, Abuja	HIGH-LEVEL WORKSHOP ON STRATEGIES FOR CREATING A FAVOURABLE LEGAL/ECONOMIC ENVIRONMENT FOR FOREIGN INVESTMENT 26-30 March 1990
GHANA, Accra	UNCTC/CFTC JOINT REGIONAL WORKSHOP ON NEGOTIATION SKILLS IN THE MINING AND CONSTRUCTION SECTORS 26 March-6 April 1990
ARGENTINA, Entre Rios	TRAINING OF LOCAL ENTREPRENEURS 7-19 May 1990
GHANA, Accra	WORKSHOP ON JOINT VENTURES AND MANAGEMENT CONTRACTS 28 May-1 June 1990

URUGUAY, Montevideo	TRAINING OF LOCAL ENTREPRENEURS 28 May-9 June 1990
COTE D'IVOIRE, Abidjan	SEMINAIRE INTERREGIONAL SUR DES PROGRAMMES D'ENSEIGNEMENT DESTINES AU INSTITUTS DE FORMATION SUPERIEURE 11-15 June 1990
ETHIOPIA, Addis Ababa	WORKSHOP ON NEGOTIATING JOINT-VENTURE AND TRANSFER-OF-TECHNOLOGY AGREEMENTS WITH TRANSNATIONAL CORPORATIONS 19-22 June 1990
MYANMAR, Yangon	WORKSHOP ON FOREIGN INVESTMENT POLICIES AND NEGOTIATIONS 10-13 July 1990
URUGUAY, Montevideo	TRAINING OF LOCAL ENTREPRENEURS 13-24 August 1990
CHILE, Santiago	TRAINING OF LOCAL ENTREPRENEURS 27 August-7 September 1990
UNITED STATES, Princeton, New Jersey	ROLE OF TRANSNATIONAL CORPORATIONS IN THE WORLD ECONOMY: SEMINAR FOR DELEGATES TO THE SECOND COMMITTEE OF THE UNITED NATIONS 14-16 September 1990
ARGENTINA, Tucuman	TRAINING OF LOCAL ENTREPRENEURS 17-28 September 1990
UNITED REPUBLIC OF TANZANIA, Arusha	ESAMI/UNCTC REGIONAL WORKSHOP ON INTERNATIONAL AGREEMENTS AND ENGINEERING CONTRACT NEGOTIATIONS 1-19 October 1990
ZIMBABWE, Harare	INTERREGIONAL WORKSHOP ON TRANSNATIONAL CORPORATION CURRICULA FOR INSTITUTIONS OF HIGHER LEARNING 2-5 October 1990
BOLIVIA, La Paz	WORKSHOP ON NEGOTIATING JOINT VENTURE AGREEMENTS WITH TRANSNATIONAL CORPORATIONS IN MINING AND ENERGY 8-12 October 1990
ANTIGUA, St. John's	CARIBBEAN REGIONAL WORKSHOP ON DEBT AND EXTERNAL RESOURCES MOBILIZATION AND MANAGEMENT 22-26 October 1990
BRAZIL, Porto Alegre	TRAINING OF LOCAL ENTREPRENEURS 29 October-9 November 1990
INDONESIA, Jakarta	REGIONAL WORKSHOP ON NEGOTIATING WITH TRANSNATIONAL BANKS 31 October-9 November 1990

CHINA, Zhuhai	WORKSHOP ON THE CONTROL OF TRANSFER PRICING PRACTICES BY TRANSNATIONAL CORPORATIONS 5-9 November 1990
NIGERIA, Abuja	WORKSHOP ON INTERNATIONAL ARBITRATION: PRACTICES AND PROCEDURES 19-23 November 1990
NEPAL, Kathmandu	NATIONAL WORKSHOP ON INFORMATION SYSTEMS ON TRANSNATIONAL CORPORATIONS AND NEW INFORMATION TECHNOLOGIES 26-29 November 1990
CHILE, Talca	TRAINING OF LOCAL ENTREPRENEURS 26 November-7 December 1990
URUGUAY, Montevideo	TRAINING OF LOCAL ENTREPRENEURS: SECTORAL TRAINING 26 November-7 December 1990
GHANA, Accra	TRAINING OF LOCAL ENTREPRENEURS 27 November-15 December 1990